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The social invention of consumer credit has expanded greatly during the past 20 years with resulting abuses such as personal overextension of credit or lenders taking an unfair advantage of less knowledgeable consumers. With the new types of credit and great amounts of money involved, it is essential for consumers, distributors, and educators to understand the role of consumer credit in our economy. The viewpoints and comments of 35 attorneys, family finance specialists, educators, government officials, business representatives, home economists, and experts in consumer credit were presented at a national workshop attended by 200 home economics leaders. Presentations are classified according to: (1) Consumer Credit in the United States Economy, (2) Problem Users of Credit, (3) Guidelines for Using Credit, (4) Teaching Consumer Credit in Money Management, and (5) Overview. A workbook on consumer credit, a bibliography, charts and tables, a roster of participants and a list of regional and state follow-up meetings are included in the document. (FP)

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Proceedings of a National Workshop

CONSUMER CREDIT

in Family Financial Management

University of Wisconsin
October 9-12, 1967

Sponsored by American Home Economics Association

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FOREWORD

The Workshop on Consumer Credit in Family Financial Management is one of several national workshops presented by the American Home Economics Association in recent years to reinforce the contribution of home economists in areas of broad social concern. In the past decade, hundreds of specialists from diverse areas of home economics—business, education, health and welfare, extension, and research—have met at workshops to consider problems of low-income families, the rehabilitation of handicapped homemakers, and programs for the aging.

The Workshop on Consumer Credit was designed to strengthen teaching, research, and counseling in family financial management through an examination of the most pressing issues in consumer credit today. Its objectives were:

- To increase the understanding of the nature and scope of credit in the national economy and in the family unit
- To extend knowledge of the legal foundations of credit
- To consider the role of financial institutions, professions, and agencies in the area of credit
- To explore the socio-psychological aspects of credit addiction
- To identify the contribution of home economics in the area of credit through education, research, counseling, and legislation

This collection of papers and other material from the Workshop is intended to serve as a resource to home economists and other professional people working in consumer credit or related areas. It is our hope, too, that users and extenders of credit may gain useful insights and knowledge about today's credit practices.

The Association is grateful to the planning committee, distinguished speakers, panelists, and participants who contributed to the success of the Workshop.

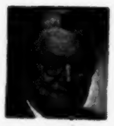
HELEN J. MANDIGO, PRESIDENT
AMERICAN HOME ECONOMICS ASSOCIATION

CONTENTS

Foreword
Helen J. Mandigo, President, American Home Economics Association ... 3

Introduction
Louise A. Young, Chairman, Workshop Planning Committee ... 9

CONSUMER CREDIT IN THE U.S. ECONOMY



Consumers and Credit in the Economy
George W. Mitchell, Member, Board of Governors of the Federal Reserve System ... 11

Family Use of Credit
James N. Morgan, Program Director, Survey Research Center, University of Michigan ... 16

Historical Development of Consumer Credit
Richard L. D. Morse, Head, Department of Family Economics, Kansas State University ... 20

What is Electronic Data Processing?
Claude Rice, Attorney; Rice, Grover, Nugent and Baska, Kansas City, Kansas ... 27

Universal Credit Cards
Bill W. Dixon, Assistant Vice-President, First Wisconsin National Bank of Milwaukee ... 31

An Electronic Cash and Credit System
Robert H. Whitby, Staff Consultant, Booz, Allen & Hamilton, Inc., Management Consultants ... 36

Some Reflections on an Introductory Course in Economics and Consumer Credit
Robert J. Lampman, Professor of Economics, University of Wisconsin ... 43

CONSUMER CREDIT AND THE LAW

Consumer Credit and the Law
Barbara A. Curran, Research Attorney, American Bar Foundation 47

The Importance of Credit in Our Competitive Economy and the Role of the Federal Trade Commission
Mary Gardiner Jones, Commissioner, Federal Trade Commission 53

The Search for Uniform Credit Legislation
Cyril J. Jedlicka, Senior Vice-President, City National Bank and Trust Company, Kansas City, Missouri 61

What is Beyond Truth-in-Lending and Other Credit Issues
Leslie V. Dix, Director for Legislative Affairs, President's Committee on Consumer Interests 66

Revolving Credit Plans and the Law
Bronson C. La Follette, Attorney General of Wisconsin 70

PROBLEM USERS OF CREDIT

Profile of the Problem User of Credit—The Bankrupt
Suzanne Matsen, Assistant Professor, Consumer Education, New York State Cooperative Extension, Cornell University 73

A Neighborhood Lawyer's Approach to the Problems of Consumer Credit
J. Kirkwood White, Staff Attorney, Neighborhood Legal Services Project, Washington, D. C. 78

Problem Users of Consumer Credit as Seen by a Caseworker
Faith S. Goldberg, Caseworker in Financial Counseling, Family Service of St. Paul, Minnesota 87

The Primrose Path from Easy Credit to Bankruptcy
Jack N. Eisendrath, Attorney; Eisendrath and Roffa, Milwaukee, Wisconsin 93

GUIDELINES FOR USING CREDIT

Sources of Credit
Barbara Higgins, Family Economics Specialist, University of Massachusetts Extension Service 98

Cost as a Guideline for Using Credit
Albie Rasmussen, Assistant Professor of Family Economics, Kansas State University 104

Contracts as a Guide in Using Credit
Josephine H. Staab, Professor of Home Management and Family Living, University of Wisconsin 110

Budget Guides
Faith Clark, Director, Consumer and Food Economics Research Division, Agricultural Research Service, U.S. Department of Agriculture 117

TEACHING CONSUMER CREDIT IN MONEY MANAGEMENT

The Obstinate Audience: Teaching Through Mass Media
Faith Prior, Extension Family Economist, University of Vermont Extension Service 122

Teaching in the Classroom
Sally R. Campbell, Assistant Director, Money Management Institute, Household Finance Corporation 129

Teaching Through Extension
Erna K. Carmichael, Consumer Marketing Specialist, Milwaukee County Extension, Wisconsin 133

Decisions, Dollars, and the Disadvantaged
Alice M. Stewart, New York City Extension Specialist in Consumer Education 135

Financial Management Counseling
Mary Feeley, Columnist and Money Management Consultant 140

OVERVIEW

Means and Ends
Ruth L. Bonde, Chairman, Department of Home Economics, Northwestern University 144

The Square Tomato, or A Look to the Future
Helen G. Hurd, Professor Emeritus of Sociology, Rutgers University 153

Panel: We Take This Home
Gwen J. Bymers, Moderator; Professor of Household Economics and Management, New York State College of Home Economics, Cornell University 158

Sarah Manning, Associate Professor, Department of Home Management and Family Economics, Purdue University 158

Myrna P. Crabtree, Director, Home Economics Education, State of New Jersey 159

Betty E. Hawthorne, Dean of Home Economics, Oregon State University 160

Nathalie D. Preston, Supervisor of Homemaker Service, Brooklyn Bureau of Social Service and Children's Aid Society 161

Eloise Cofer, Assistant Director of Extension, North Carolina State University 162

APPENDIX

Regional and State Follow-Up on Consumer Credit 166
Workbook on Consumer Credit 167
Consumer Credit Bibliography 173
Department of Defense Table for Computing Approximate Annual Percentage Rate for Level Monthly Payment Plans 175
Applicability of DoD Table to Irregular Installment Payment Contracts:
  Illustrating Use of Form I 176
  Illustrating Use of Form II 177
Roster of Workshop Participants 178

The Workshop on Consumer Credit in Family Financial Management was supported in part by the American Home Economics Association Foundation.

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INTRODUCTION

Credit is one of many social inventions widely used by families, by retailers, by financial institutions, and by many others involved with distributing goods and services to the ultimate consumer.

The expansion in the use of consumer credit by American families during the past 20 years has been of great interest and some concern to home economists as well as to others in education, business, and finance.

We recognize changes taking place in society which have influenced consumers' attitudes toward credit use. As a result, some persons are overextending their use of credit as evidenced by the increasing numbers of people going through bankruptcy proceedings or having wages garnisheed or both. On the other hand, some lenders may be taking unfair advantage of less knowledgeable consumers.

During the early 1940's, concern was expressed that some families were using too much credit and using it unwisely. At that time consumer credit outstanding was about 8 billion dollars, but consumer incomes were also at low levels. With the advent of World War II, saving was promoted. Few consumer durables were available, and the use of consumer credit was reduced. By the end of 1945, total cash loans and installment credit for family living amounted to less than 6 billion dollars.

Since that time, installment credit as a means for paying for automobiles, consumer durables, and services such as vacations has expanded rapidly. New types of credit such as multi-purpose credit cards and revolving credit have been offered. The number of users of consumer credit has grown just as rapidly. Now consumer credit outstanding is 96 billion dollars.

With credit an increasingly important tool in the lives of most citizens today, it is as essential for the users of credit as for educators and members of the business community to have a real understanding of the role of consumer credit in our economy: what it is, what it does, what it can do.

As we consider the presentations that follow, the comments and viewpoints of attorneys, family finance specialists, educators, government officials, business representatives, home economists, and experts in consumer credit, we have an opportunity for dialogue. We will hear differing views. We will expand our levels of knowledge and understanding of consumer credit and explore ways in which home economists can make an increasing contribution. In these ways this workshop can serve as a catalyst.

Two hundred home economics leaders were selected to attend this national workshop. Each came with a commitment to accept leadership for state or regional activities that will ultimately have an impact on the lives of people, to help them achieve optimum well-being as they strive to achieve their goals. As we ponder the ideas and knowledge offered during the days of the workshop, we shall glean suggestions for techniques and information that can be shared and multiplied.

Ours is the opportunity for educating, for involving, for stimulating other home economists, and for expanding the home economist's role in education in family finance. Ours is the opportunity to reach consumers through teaching and research, through counseling with families, through interaction with other professions and business, and through service to our community and our government.

LOUISE A. YOUNG, CHAIRMAN
WORKSHOP PLANNING COMMITTEE

CONSUMERS AND CREDIT IN THE ECONOMY

GEORGE W. MITCHELL

A truism well known but little recognized in discussions of debt has to do with the relationship between debt and thrift. If one saves by investing his money in life insurance, a retirement annuity, a corporate bond, Treasury securities, state or local government bonds, or by depositing it in a commercial bank, a mutual savings bank, a savings and loan association, or a credit union, someone has to go into debt in order for him to earn a return on his savings. For every dollar lent there must be a dollar borrowed. In fact, debt and thrift are a little like love and marriage; while you can have one without the other—i.e., you can save by buying a house, investing in stocks, or buying other equities—the usual relationship, as in love and marriage, is one of matched debts and credits.

Thrift and debt (or credit and saving) play an indispensable role in our economy. This indispensability is linked to the nature of our financial instruments, institutions, markets, and mores. To provide the resources to build private and public facilities, such as factories, machines, housing, highways, utilities, schools, and the like, we have developed an efficient and sensitive set of financial relationships for channeling funds from savers to investors. The channeling takes place for the most part either through financial intermediaries—banks, insurance companies, savings and loan associations, credit unions—or through money and capital markets. If we look at these sources and uses of savings and the channels through which they flow, we can obtain a useful perspective of the relationship of consumer credit to total credit in our economy. Let me introduce the discussion of this problem by reference to the gross national output.

Ours is an $800 billion economy today. By that I mean we are producing goods and services at a rate which, if continued for a year, would amount to $800 billion, or with 200 million people, about $4,000 per capita. Most of this flow of goods and services (about $500 billion) goes directly to consumers in the form of durable goods, such as automobiles, household furniture, equipment ($75 billion); nondurable goods such as food and clothing ($220 billion); and services ($205 billion).

Government—federal, state, and local—is absorbing about $180 billion of the $800 billion total, divided roughly in half between the federal and the state and local governments. The other $120 billion is mainly business investment in plants, equipment, and inventories (between $85 and $90 billion). In addition, about $25 billion goes for residential construction and $5 billion for net exports (Table 1).

TABLE 1. Flow of Goods and Services
(in billions of dollars)

CONSUMER		
Durable goods	75	
Nondurable goods	220	
Services	205	
		500
GOVERNMENT		
Federal	90	
State and local	90	
		180
BUSINESS		120
HOUSING		25
NET EXPORTS		5
GROSS NATIONAL PRODUCT		830

How does credit fit into this pattern of output and how significant is its role? At this point let us consider Tables 2 through 5 on the next pages which present some interesting and significant facts and relationships. These figures seem to be of particular significance in providing background for discussions of consumer credit. For example:

1. Debt in the economy at the end of 1961 and at the end of 1966 was about three times as large as the gross national product. However, since financial intermediaries borrow only for the purpose of lending to others, their debt, which is about one-third of the total, should be deducted if our purpose is to compare the relative use of funds by various sectors of the economy. Overall debt on this basis is little less than twice as large as GNP (180 to 185 percent).

2. At the end of 1966 consumers were using less of the credit outstanding than government (23 percent) and even less than business (nearly 21 percent). Of their 17 percent share, almost two-thirds was in mortgages and only 26 percent in consumer credit.

3. Consumers, overall, are in a strong creditor position; their debt assets in 1966 were 2¼ times their liabilities.

4. Consumers' debt assets are mainly (over two-thirds of the total) in the form of deposits in commercial and mutual savings banks, savings and loan associations and credit unions, and in reserves in life insurance companies and private pension funds.

5. Not only are financial intermediaries the major channel through which the non-equity savings of individuals flow, but individuals are the main source of funds for financial intermediaries (about 75 percent). Financial institutions also hold more of the debts of individuals than they do of the debts of either government or business.

What is missing in this summary of financial relationships? Mainly the significance of large equity investments by individuals and businesses, which has the effect of further strengthening their financial condition. Governments and financial institutions are not significantly affected by the omission of equity holdings. The equity investments of financial institutions are limited by the character of their liabilities, and the equity investment of governments in facilities, other than land,

TABLE 2. Summary of Total Debt in the United States Estimated as of the End of 1961
(in billions of dollars)

TOTALS, BY TYPE	CONSUMERS	BUSINESSES	GOVERNMENTS	FINANCIAL INSTITUTIONS
LONG-TERM DEBT				
713	Residential mortgages 148	Commercial mortgages 63	Savings bonds 46	Corporate bonds 10
		Farm mortgages 14	Other federal securities 101	Retirement fund reserves 62
		Bonds 78	State and local government securities.. 59	Life insurance reserves 88
			Retirement fund and insurance reserves 44	
SHORT-TERM DEBT				
398	Consumer credit 58	Trade payables 57	Federal securities* 151	Borrowing from Federal Reserve and Home Loan Banks 3
	Policy loans and security credit 19	Bank loans 52	State and local securities* 15	Other loans 16
		Other loans 16	Other payables 11	
MONEY-TYPE DEBT				
377			Currency 37	Commercial bank deposits 206
			Deposits in Federal Reserve Banks 17	Mutual bank deposits 39
			Postal savings and other 2	Savings and loan and credit union shares 76
1488				

SOURCE: *The Two Faces of Debt*, Federal Reserve Bank of Chicago, P.O. Box 834, Chicago, Illinois 60690, 1963, p. 4. Covers debt domestically owned and owed.

* Maturing in less than five years.

is usually eroded by obsolescence and amortization periods which tend to fully cover the useful life of the asset.

An overall look at these debt and financial relationships gives little suggestion of unbalance or disproportionate use of credit by consumers or households as a group. Their purchases of goods and services amount to over 60 percent of the gross national product, and their use of consumer credit measured by outstandings is less than 5 percent of the total credit use. This is a very crude relationship, but I use it merely to infer that over $100 billion of consumer credit is a relatively small number in terms of the total the economy generates in its savings. Does it also sound small at $500 per capita?

Another way of looking at it is that installment debt (about 80 percent of consumer credit) is about 10 percent of GNP. This ratio has shown a plausible rise from 8.5 percent at the beginning of the 1960's, reflecting the growing importance of durable goods in consumer economy patterns.

Another frequently used relationship is the ratio of repayments to disposable income, which at 14.3 percent appears, on the basis of our recent experience, at a reasonable level. Similarly, one does not find over recent years evidence of overuse or exposure to subsequent disequilibrating adjustments in the relationship of extensions to repayments for the major consumer credit sectors—automobiles, other durables, repair and modernization, or personal loans.

One final aggregative type measure should be mentioned. Extensions of credit on purchases of autos and other durable goods by consumers are running at an annual rate of a little over $50

TABLE 3. Summary of Total Debt in the United States Estimated as of the End of 1966
(in billions of dollars)

TOTALS, BY TYPE	CONSUMERS	BUSINESSES	GOVERNMENTS[1]	FINANCIAL INSTITUTIONS	FOREIGN[3]
LONG-TERM DEBT					
1003	Mortgages 232	Nonfarm mortgages .... 62 Farm mortgages .... 23 Bonds ....108 Direct investments from abroad 9	Savings bonds.. 50 Other federal securities[2] .... 44 State and local government securities ......106 Retirement and insurance reserves 64	Corporate bonds .... 19 Retirement fund reserves ....100 Life insurance reserves 104	Bonds .... 9 Long-term loans .... 20 Direct investment from U.S. 53
SHORT-TERM DEBT					
580	Consumer credit .... 95 Policy loans and security credit 34	Trade payables ......115 Bank loans ...... 84 Other 49	Federal securities ......141 Other 12	Borrowing from Federal Reserve and Home Loan Banks .... 7 Other loans 34	Bank loans ...... 7 Other loans 3
MONEY-TYPE DEBT					
547			Currency .... 45 Deposits in Federal Reserve Banks 20	Commercial bank deposits ....304 Mutual savings bank deposits .... 55 Savings and loan and credit union shares 124	
2130					

SOURCE: Board of Governors, Federal Reserve System.

[1] Includes Federal Reserve System and certain accounts on a consolidated basis.

[2] Due in five years or more.

[3] Amounts owed to U.S. creditors.

TABLE 4. Credit in the U.S. Economy, Year-end, 1961
(in billions of dollars)

	HELD AS ASSETS	OWED AS DEBTS
Consumers	591	225
Businesses	159	280
Governments	179	483
Financial institutions	559	500
TOTAL	1488	1488

SOURCE: *Two Faces of Debt*, 1963, p. 7.

TABLE 5. Credit in the U.S. Economy, Year-end, 1966
(in billions of dollars)

	HELD AS ASSETS	OWED AS DEBTS
Consumers	805	361
Businesses	289	450
Governments	185	481
Financial institutions	816	746
Foreign	35	92
TOTAL	2130	2130

SOURCE: Board of Governors, Federal Reserve System.

billion per year—this is against total sales at an annual rate of $75 billion. Such credit has an average life of 20 to 25 months, considerably less than the useful life of the goods being purchased. With one-third of these purchases being initially financed with cash and two-thirds being amortized at a considerably lesser period than the useful life of the durable goods purchased, there seems little in the aggregates or relationships to view with alarm. Indeed, if we include in our concept of total saving, saving in the form of acquisition of equities in durable goods, then saving—not profligacy—is probably proceeding at a greater rate than would be the case if consumer credit were not available for the purchase of durable goods.

THE QUALITY OF CREDIT

Looking at the overall relationships and aggregates, I see nothing which leads me to view with concern the present dependence of households on consumer credit. This does not mean that some individuals are not seriously overextended and that some lenders are not seriously overextending. Exploration—in workshops, classrooms, and other interdisciplinary means—of practices giving rise to such abuses reflects a proper concern with real problems.

The Federal Reserve System is concerned, too, and well beyond its responsibilities for collecting consumer credit statistics. Our concern, in many respects, parallels that of home economists and other professional people, but our responsibility stems primarily from the need to make continuing evaluation of the quality of credit held by financial institutions.

The concept of credit quality is elusive, and much depends on one's point of view. From the credit grantor's point of view, it has to do with the soundness of his loan portfolio and the probability of loss should the debt not be repaid on schedule or in full. Since the consumer credit mechanism reaches into mass markets, including marginal as well as good credit risks, there is always the certainty of some loss. From the standpoint of an individual borrower, credit quality relates to his ability to repay the debt he owes, given the probability of changes in income, employment, liquid asset holdings, and other variables that determine repayment prospects.

Unfortunately, we do not now have entirely satisfactory measures of the quality of consumer credit. Recently, however, developmental work on a credit quality project has been undertaken in cooperation with commercial banks.

Some of you may have heard of the work in progress at Mobile, Cleveland, or Buffalo. In effect, participating commercial banks in each of these metropolitan areas and others soon to be added have been supplying detailed data on the characteristics of borrowers and the loans they make. The information being assembled includes: (1) data on the borrower's financial situation—income, old debts, and number of dependents—to provide a guide to his ability to repay; (2) data on the borrower's social stability—his age, marital status, and years at present address—to provide a guide to his probable desire to repay; and (3) data on the loan itself—purpose, terms, and security—to provide some measure of the protection offered the bank. These data will enable us to associate the characteristics of each individual loan with its performance—something we could never have done before electronic data processing.

In addition to data on individuals, data such as time series will also tell us something about changes in financing patterns. Are cash down payments for automobiles getting smaller? Are trade-in allowances getting larger? Are fewer and fewer of the cars being traded fully paid for? To what extent are the most favorable terms being reserved for strong borrowers? To what extent are borrowers rolling over their debt instead of paying it off?

Our credit quality project will also obtain data on charged-off loans, so their characteristics may be compared with the good loans which have been paid off. Still another special category to be surveyed will be a sample of the rejects; that is, those loans that were "almost made." Comparing characteristics of these loans with the weakest loans actually granted will serve to bracket the minimum standards in effect at a given time and place. This will be invaluable in our study of how lending standards—and hence credit availability—shift in response to monetary policy and the business cycle.

These studies will undoubtedly improve our understanding of factors impinging on credit quality and should enable the lenders who recognize such facts to do a better job of avoiding bad loans, or at least pricing bad loans realistically. But the problem of the bad lender is something else. We have not been very successful with legislation or competition in protecting the ignorant, the gullible, or the hard pressed from exploitation by unscrupulous vendors and lenders.

Usury laws, by keeping the more responsible lenders out of high cost markets, have probably increased rather than decreased, consumers' exposure to bad lenders. Statutory segmentation of consumer credit markets has, as has often been pointed out, raised the cost of those types of credit which are, as a consequence, sealed off from competitive forces.

There are hundreds of thousands of sources of consumer credit. Most of the responsible lenders operate in competitive markets with considerable know-how and under corporate or business policies responsive to the public interests in credit use. In addition, the financial institutions involved are regulated and periodically examined as to the quality of their assets. But around the core of responsible lenders is a fringe of unregulated lenders and vendors who account for most of the abuses of consumer credit. Vendors whose lending operations are so merged with selling of goods that it is difficult to determine how much of the price is for credit service and how much is for merchandise are a particular source of difficulty. Congress, in the truth-in-lending bill, is attacking this problem by highlighting the cost of credit in every retail transaction involving its use. This is a bill that merits support.

CONVENIENCE CREDIT

No discussion of consumer credit today would be complete without some discussion of convenience credit, credit cards, and the cashless-checkless society. We are, beyond any doubt, in a transition period in the ways of keeping the community's books and records and in the methods of money settlement. By now everyone knows that electronic data processing and the techniques of transmitting data electronically are revolutionizing our paper economy. In this period it seems likely that convenience credit may grow disproportionately solely because of its frequent advantages, accounting and conveniencewise, over certain types of present-day cash settlement methods. Probably this phenomenon will be of rather short duration as we perfect the mechanics of instantaneous settlement without the disadvantages accompanying the use of coin, currency, and checks. Conceivably, such an accommodating role of convenience credit could give rise to a future series of alarms about the "frailties" of a new use of consumer credit. It would certainly not be able to reproduce itself for very long.

Considering consumer credit's future in very broad and general terms, the following facts are certain: (1) Credit is still here to stay in financing the acquisition of consumer durables; (2) there will continue to be bad loans but they will be less and less of a problem; (3) there will continue to be bad lenders who will be responsible for a larger and larger proportion of bad loans (I would hope that substantial progress would be made in identifying and dealing with bad lenders); and (4) convenience consumer credit may play a significant lubricating role to ease us into the cashless-checkless society.

FAMILY USE OF CREDIT

JAMES N. MORGAN

It is not to the credit of the American educational system that most Americans do not know how to estimate the rate of interest on a loan. The more formal education people have, the more willing they are to hazard a guess, but they are no more likely to be correct. Therefore, the first problem most families face is knowing enough to be able to handle their own financial decisions.

Yet things are not as bad as they might be. People know that credit is cheaper in some places than others, and that it is better to get it at a bank, or savings and loan association, or credit union. The well-educated are more likely to have heard of the credit union, but most believe credit is cheaper at the bank, which is usually true even if part of the difference is in rebates that go to the dealer (and may allow him to lower his price). And people have good reasons for using credit, even knowing that it costs them something. Credit helps them budget their money to pace the buying of necessary items over a period of time.

Over the 13 years since the University of Michigan Survey Research Center started asking national samples whether or not it was a good idea to buy things on the installment plan, the overall and predominantly favorable attitude pattern has not changed, though the reasons tend to be less emotional and more discriminating. Young people focus on cost as a reason for not buying on credit, whereas they feel that the help credit provides in budgeting is a reason for using it. Older people are more likely to say either that it is the only way to buy large items, or that there is a risk of buying too much if credit is used (*1*). People rank acceptable uses for credit as follows:

medical expenses	80%
education	77%
car	65%
(about equal to the fraction that do buy their cars on credit)	
furniture	52%
paying accumulated bills	43%
covering expenses when income is cut	40%
vacations	9%
fur coat or jewelry	4%

This ranking of acceptable uses for credit has not changed since 1959, though the proportion approving the use of credit for medical expenses has fallen and approval of credit for education, furniture, and meeting cuts (presumably temporary) in income has risen. In other words, consumer ignorance about technical details of credit is in part offset by sophistication about where it is cheaper, and by discriminating notions about acceptable purposes for credit.

It is doubtful that many people understand the complex arrangements a seller uses to hide part of the price in what purports to be a finance charge. Nor can people see much justification for the rebate to the seller, the so-called "participation in the finance charge" in which the seller neither lends money nor takes risk. The variety of things the seller can manipulate allows him to appear to compete along whatever line the customer appears sensitive—price, trade-in allowance, insurance costs, accessories, or finance charges—and to make it up on others. It is doubtful that the average consumer can ever be taught enough about the complications of credit buying so that he could do much better than fix the number of months he'll stay in debt and attempt to get the lowest monthly payments.

WHO USES INSTALLMENT CREDIT?

The use of credit is a middle-income phenomenon. Those with a high income use it more rarely, but over longer periods of time, as in buying a car. Those with the lowest income rarely use credit, and whether it is from their own "won't power" or the unwillingness of lenders to consider them a good risk is difficult to say. They are even less likely to use revolving credit accounts, charge accounts, and gasoline credit cards, even though the last two provide free credit for short periods. The reasons are yet to be determined carefully, but some evidence exists that many use installment credit as a budgeting device to schedule payments and to provide a regular indicator of depreciation cost that might otherwise be forgotten. It is possible that the reason the low-income group does not use the free credit of charge accounts and gas credit cards is that rather than help people handle their money, they often increase financial difficulties. One more bill of unknown size would be coming in each month, and less restraint would be exercised in using one's car unnecessarily. But upper income people also take more vacations, and make more long trips(*2*). As many as one-third of those with incomes over $7500, and more than half with incomes over $10,000, use gas credit cards. With regard to charge accounts, half of those earning over $7500 use them while two-thirds of those earning over $10,000 use one or more such accounts.

Much of the increase in installment credit buying in the last decades has been the result of more frequent use of credit in the upper middle-income brackets, rather than an increase in the proportion of people with more debt than they could handle. Economists' concern with aggregates, such as the ratio of aggregate consumer debt to aggregate consumer income, led them to a misplaced concern when the ratio grew. They did not notice that the average ratio of debt to income among consumers was growing little if at all, and the proportion of a high ratio of debt payments to income was growing still less (because repayment periods were lengthening).

This does not mean that no one has trouble with installment credit, or that there is leeway for further expansion. A national sample was asked early in 1967: "Suppose you'd like to make some more large purchases—would it be easy or a hardship for you to take care of larger payments than you make now?"

Nearly two-thirds reported that it would be difficult or very difficult among the families with existing debt. The optimism and confidence people have in their own and the country's future can also change their judgment about how much debt they can carry.

The annual reports of the Federal Referees in Bankruptcy show that the number of personal (non-business) bankruptcies has been growing rapidly, passing in absolute numbers the record of the great depression, and is about as high in proportion to the population as in that dismal period. It is still a small fraction of the population who go bankrupt, but educators need to know the details of the path from delinquency to garnishment to bankruptcy.

Garnishments depend on 50 different state laws and vary as to how much is excluded for the debtor to live on. Some states, like Texas, have no garnishment law at all. But the amount of income left after garnishment in many states is less than the amount given to a family on welfare (and still less than the standard current federal definition of poverty, which is roughly $1,000 plus $500 per person).

CHAPTER XIII OF THE FEDERAL BANKRUPTCY LAW

Threat of garnishment, loss of job, or an unbearable burden of debts supposedly allows the individual to declare personal bankruptcy under federal law. Some years ago, at the urging of Alabama Judge W. I. Grubb, a Chapter XIII was added to the federal law in the Chandler Act of 1938, providing for scheduled repayments, rather than cancellation of debts, under the supervision of a court-appointed lawyer. Chapter XIII had the double intent of lessening the pressure of bankruptcies on the business community and of allowing the wage earner an opportunity to pay his debts without being subjected to garnishment and other harassment by his creditors. Statistical tables show that few people go through bankruptcy in Alabama, southern Georgia, or western Tennessee. This might be the result of the pressures from the particular federal referees in bankruptcy in those areas, since the vast majority go through Chapter XIII proceedings.(*3*)

Bankruptcy is allowed only once every seven years, therefore the high-pressure sellers regard a bankrupt as a good credit risk. However, Chapter XIII can be used as often as desired. The argument for these scheduled repayments was that they would act as a rehabilitation device in demonstrating how to pay off bills. But a recent study of Alabama cases has shown that a very large fraction of the Chapter XIII cases were going through for the third, fourth, or even the fifth time!(*4*) Of 4200 Chapter XIII wage-earner petitions filed in Birmingham in 1965, 65 percent were repeaters, and 20 percent were going through this expensive procedure for the fifth time or more.

The justification for Chapter XIII as an educational device is doubtful, but the American Bar Association is mounting a campaign to revise the law so that the federal referees can make it mandatory. What started out as an idealist's way of helping the poor to avoid harassment now threatens to become an expensive court-and-lawyer system for enforcing the collection of private debts, many of them incurred through high-pressure selling methods. The legal fees are generally as high as for straight bankruptcy.

APPROXIMATING CREDIT COSTS

One of the difficulties with regard to credit is the complicated algebra of interest rates. If we put $1.00 in the bank at 5 percent we will have $1.05 at the end of the year (or a little more if the interest is compounded several times during the year). When periods of more than a year are involved, compounding of interest begins and few realize how fast a sum will accumulate, or how much one must depreciate a distant sum. It might seem a good idea to buy a piece of real estate, and sell it for twice the price 15 years later. However, a man would be making less on his money than if it were in a savings account at 5 percent, even before taking account of property taxes (though his taxes might be less, since it is a capital gain).

A simple guide that will allow one to make crude estimates is the "rule of 72." Seventy-two divided by the interest rate is the number of years it takes to double an original sum by compounding of interest alone. This is a good approximation for interest rates from 3 percent through 7 percent. It can be stated the other way: if you must wait a number of years for your money equal to 72 divided by the interest rate, the present value of that future right is just half of the sum of money you'll get.

Similar approximation rules can be developed for annuities, sums of money which you accumulate to provide a sum, or that are paid to you exhausting a sum. If the number of years of payment times the interest rate amounts to about 155, then the total value of the accumulation is roughly twice the total amount you have put in, or the payments on a mortgage will total twice the price of the house (since you are paying interest rather than earning it).

Compound interest discounting at an appreciable rate, say 5 percent, has a great effect on the value of money over a period of years. The present value of $1.00 fifty years from now, if the market rate is 5 percent, is less than 10 cents. At 8 percent, it's worth only 2 cents! Compound growth rates are equally staggering. At 6 percent compound interest, an original sum (or a population) doubles in 12 years. In 40 years it is more than 10 times its original size.

People are already aware that credit is costly. They will be more aware of this fact when the annual interest rate is printed on installment contracts under the new truth-in-lending bill, and when revolving credit statements point out that interest is charged at 1½ percent per month, or 18 percent (and a little more) per year. I think the truth-in-lending bill is a great step forward and I am convinced that many people can multiply 1½ × 12. However, people are not always aware of the alternatives, nor can they handle money well enough to provide some of the alternatives. A man who could use a savings account as a depreciation reserve could easily, after a small initial wait, be earning 5 percent interest on a varying sum for the rest of his life, instead of paying 16 percent or more on a varying installment debt for the rest of his life(*5*). If the average size of that debt is $500, and we are talking about 40 years, the difference is between earning $1,000 in interest over that period, or paying $3200 in installment credit charges. Can the average man wait a year to buy his *next* durable for a lifetime saving of $4200?

Once a man can handle his own depreciation funds, he can decide to avoid expensive credit, even if it means keeping the mortgage on his house. He has little choice about pension plans to which he lends money at low interest rates. Eventually he might learn enough about life insurance to realize that most types involve lending money at 3 to 4 percent, at the same time that he might be borrowing it at three to five times that rate. Indeed, a dramatic case illustrating this phenomenon is the combination mortgage and life insurance arrangement, sometimes advertised as a low-interest mortgage. The interest looks low because it is combined with a life insurance policy that builds up a reserve. In time the amount still owed on the mortgage is equal to the reserve on the life insurance, so that one is considered to be lending money at a low interest rate, while borrowing the same amount from the same company at a higher rate. This implies that family use of credit can be intelligently handled only when the family understands the interest implications of life insurance as well. In this regard I urge everyone, students, too, to read the series of three articles on life insurance in *Consumer Reports* (January, February, and March 1967), now issued in expanded form by Harper and Row under the title *The Consumers Union Report on Life Insurance.*

CONCLUSIONS

Consumers are uninformed and lack the technical insights to understand the intricacies of amortized loans, level premium life insurance, garnishment, annuities, or even compound interest rates. But they have some defenses. Consumers know that credit is costly, and that it can be more costly in some places than others. They do shop around, and perhaps the poor are right in the feeling that they could not get credit at the bank where it is cheaper. What we do not have is clear evidence about one final issue. Do the different interest rates charged for various forms of credit, and at various places, bear any relationship to the cost of giving that credit, even if we include the expected bad debt loss? I suspect that part of the higher interest rates reflect real cost differences, but they are more a reflection of what a market of careless or otherwise restricted buyers will pay.

Perhaps the most effective thing we can teach students is, not how to construct a table of compound interest, but how to realize that a $10,000 house bought on a 20-year mortgage calls for payments of $13,333 at 3 percent interest, or $17,200 at 6 percent. If the mortgage runs for 40 years, the same house will require total mortgage payments of $17,200 at 3 percent or $26,400 at 6 percent. And yet, even those extra amounts may be cheaper than buying a succession of cars on credit over the same period.

Some evidence on auto installment paper indicates that lenders have been selling long-term paper, 36 months for instance, knowing that a large fraction of buyers will trade in the car before that time, pay off the loan, and take some penalties for prepayment. Once again the consumer is lulled into a false sense about the true cost of an item. And now the mail order houses are lengthening their terms, so that you can buy an appliance at Montgomery Ward in September, not start payments until March, and take 36 months to pay after that, adding a third to the total cost, so that a $460 appliance actually ends up costing $616.

Finally, if we are to educate people as to the complexities of the modern merchandising and credit systems, something more than dull books, teaching, and panel discussions will be necessary. What is required, particularly for those who read little, attend no meetings, and like drama, are television plays focused on the economic problems of the household, where the truth gradually unfolds, and we learn from others' mistakes.

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HISTORICAL DEVELOPMENT OF CONSUMER CREDIT

RICHARD L. D. MORSE

According to an Associated Press story last August, a professor of Assyriology, Dr. Leavy, was translating a clay tablet when he came upon a promissory note written 3800 years ago. The note was for 10 minas of silver borrowed by an Assyrian exporter. The banker making the loan was to receive 29 minas in return after a year—an interest rate of 190 percent.

We have evidence of the use and misuse of credit in the codes or laws reflecting the judgment of society. These are to be found in the Civil Code of Hammurabi 2200 years before the Christian era, the laws of Manu, Israelitish pronouncements in Exodus, Deuteronomy, and the Talmud, the Twelve Tables of Rome, the Justinian Code, and many doctrines which have issued from the Christian church. Credit enthusiasts will remind us that consumer credit came over to our land on the Mayflower. Furthermore, it took the Pilgrim Fathers 25 years and much refinancing to repay their original seven-year loan. Consumer credit was part of the Colonial family's way of life.

Benjamin Franklin's sage advice against borrowing was based not only on his sad experience with uncollectible credit, but on his observations of the use of credit in Colonial America. And so, credit is not new. It has been with mankind longer than documented history, and it will endure.

SOME GENERALIZATIONS

Before discussing specific historical developments, I wish to present five basic generalizations about the course of credit. First, *since credit and its companion, savings, are a natural outgrowth of the misalignment of income and expenditure, they may be presumed to have existed since the beginning of time.* Robinson Crusoe, whom economists use to exemplify a simple one-man economy, is portrayed as having to decide whether to forego current income of fish and take time to make a net with which he could catch more fish. Modern families are similarly involved in *time decisions.*

The modern family can seldom match incomes with expenditures. Within a year there are peaks of heavy expenditures such as back-to-school clothes and supplies, vacation trips, Christmas, income taxes, and spring clothes. These expenditures seldom coincide with income peaks. They can be met with cash either previously saved or borrowed through the use of credit from future income. And within a family's lifetime, cash flows can be advantageously synchronized through wise use of credit and savings.

We have a motto at our house: "The Morses will be through in '72." That is the year our youngest is expected to be through college, after which we anticipate a period of financial recovery to a level that will enable us to coast through retirement with reasonable comfort. The years of accumulating children, cars, and home furnishings, and of anticipating salary increases and job prospects are now behind us (but not entirely, for we will undoubtedly empathize with our children as they wrestle with finances and juggle hopes and aspirations with hard financial facts).

Therefore, *savings* are used to take up the slack when there is an excess of income over current needs, and *credit* is used to pay out under pressure of current needs which exceed available income. For most consumers, saving is "postponed" consumption, whereas credit is "premature" consumption. Time is the essence of the matter.

This concept became very clear to me when I was counseling a father of three children. He was heavily in debt, yet wished to plunge further into debt to finance his education in order to obtain the degree necessary to keep the well-paying position he then held on a temporary basis. He said, quite correctly, "I'm just buying time." Ancient man, as modern man, has needed to buy time.

My second basic generalization is that *credit involves mutual trust:* a promise to pay and an expectation to receive repayment. Such trusts may be presumed to have existed ever since man has been able to communicate. In the large extended family, intricate systems are built into their cultural pattern to effect credit and savings. The growth of commerce has been accompanied by growth in credit. This in turn has required a system of law or tradition which upholds the rights and responsibilities of the contracting parties.

Consumer credit, widely used as it is today, is essentially a modern creation, the development of which is directly related to that intangible but essential character of trust, bounded by law. A serious problem today is that credit is extended to illiterates who are then bound by written contracts. This incongruity permits entanglement of the unsuspecting who, when caught, quite logically view the process as a trap.

A third basic observation is that *there is an inherent inequality of risk in this mutual trust arrangement.* At the time credit is extended the creditor knows with certainty that he has parted with money. Although the debtor may feel with equal certainty that he will repay, in most cases this cannot be completely assured. (An example of when it can be assured is a loan on the cash value of a life insurance policyholder or a savings and loan passbook loan.) To protect himself, therefore, the creditor plays the averages and charges at a rate no lower than enough to cover the risk of loss for bad debts (as well as the cost of money to him and his operating costs including profits and taxes). To reduce the incidence of such losses the creditor protects himself by making the contractual agreement one that enables him to take effective action to collect on the debts.

The element of risk in a mutual trust arrangement has resulted in the following:

- There have always been, and of necessity always will be, discriminatory lending practices. It is a requirement of the trade to be discriminating.
- Since not all of mankind is trustworthy, honest, or able to exercise prudent judgment regarding future events or restraint from overbuying, the risk rate of some consumers may be very high. Unfortunately, well-intentioned and respectable citizens, unaware of this high risk rate, have been unwilling to sanction the high rates that must accompany high risks. Throughout history, there have been injunctions against usury and ceilings placed on rates for legitimate lending, creating an illegitimate market to accommodate high risk-rate credit.
- Creditors have been given authority to write into contracts sufficient power to enforce repayment. This is justified on the theory that with this power creditors can reduce the risk of default, lower the rate, and open credit to those for whom credit would otherwise be unavailable. The ruling elders in a society tend to sympathize with the creditor since they, too, are of the property class and frown on borrowers, renters, or users who fail to meet fully their commitments to the property owner who has shared his wealth. Hence, laws tend to support creditors' rights.

A fourth basic observation is that *while credit is the result of a mutual agreement, it cannot be assumed that the bargain is between equally competent bargainers.* As I have said, contracts are written to the satisfaction of the creditor. This need not necessarily give him an unfair advantage, for it must be recognized that the borrower need never sign an unsatisfactory contract; however, we should recognize that the professional creditor does know and understand the detailed terms of the contract. He probably also knows which phrases are "bluffers" and would not hold up in court. The debtor, on the other hand, is not often skilled in drafting contracts or reading fine print with full comprehension. Nor does he know which sections are legally enforceable and which are contract padding, and what the consequences of certain actions may be.

The professional creditor is usually a skilled and trained full-time worker, whereas the debtor does not incur debts as frequently nor does he have the professional creditor's experience or skill. The creditor usually has more "staying action" than the debtor. By withholding credit he loses only interest, so he can afford to be reserved about lending money; a defective loan could cost him over 100 percent. The debtor may be equally detached and calculating about borrowing, but often he is pressed into borrowing by an emergency arising out of illness, tragedy, or the need to secure relief from the pressures of other creditors. As a "necessitous borrower" he cannot be on equal terms in bargaining for a loan. As a result, from time to time, there have been remedies to provide for the borrower who is disadvantaged at the credit bargaining table. There have been protestations from churches and outbreaks of civil disorder as a result of credit abuses throughout history.

In all fairness, we must acknowledge that the balance is not always in favor of the creditor. I made my first credit sale to a grade school classmate when I sold a bicycle I had renovated. He asked to pay for it in installments, which I thought would be all right since I did not need the money immediately. I received one installment and lost one bicycle I later learned this was the pattern of that family, which soon moved out of town. They knew how to get the most from their credit!

I have witnessed in horror news of a group of debtors being instructed on how to declare bankruptcy to even the balance with allegedly oppressive creditors. There is so much we consumer educators do not teach which would help consumers maximize their position. We fail the consumer by contrast with what many of our counterparts in schools of commerce teach students regarding the methods by which business can maximize its position in dealing with consumers.

In commercial credit the assumption of equality of the respective parties may be more appropriate. But in consumer credit, except for the "deadbeat" and the "professional borrower," the balance is in favor of the creditor.

My fifth and final observation is that *credit is difficult for most people to understand.* My major professor, Dr. Margaret G. Reid, once observed that most people are limited in their number concepts to the number of digits on both hands. Percentages require even more ability for they are relative rather than absolute numbers. There are those who believe consumers understand dollars rather than percentages, and have argued therefore that credit rates should be so expressed. None of these same people are heard advocating dollar rather than percent disclosure on savings accounts. Perhaps they assume that the wealthier savings public can understand percentages, but the poorer credit public can understand only dollars. Yet these two publics often contain the same people, so I question the logic of the dollar advocates.

Credit and savings rates are even more complicated than simple percentages. They involve a double rate—dollars per hundred dollars per year. There are two "per's" in the credit rate expression. The ability to conceptualize to this high level is not common among the majority of the public.

But even a larger portion of the public is incapable of grasping the full significance of the compounding of rates. I know no better way to illustrate what I am saying than to refer to the population explosion. The earth now holds approximately 3 billion people. At the present growth rate of 1.7 per hundred per year, in another 40 years we will have added another 3 billion people. Twenty years after the turn of the century as many people as there are now on earth will again be added, and 10 years later there will be added another 3 billion. Then in the five-year period 2030 to 2035, another 3 billion will be added, because, by that time, there will be so many that the growth rate of 1.7 percent will contribute a population equal to that to which it has grown until today. I am not predicting; I am merely expostulating what to me seems incredible, yet it is the working of compounding.

The difficulties people have with credit concepts help keep discussions about credit and interest rates lively, particularly when emotion is allowed to replace, compete, or collaborate with the cold workings of mathematics. (Note, for example, the impressive advertisements of savings institutions with daily rates. But more significant and potentially deceptive are the illusory facts quoted in connection with life insurance and retirement programs. The tendency here is to quote the total accumulations, but not the annual rate. The reverse is true on the credit side. First mortgage lenders prefer to quote the annual rate, but not the total cost.)

The aforementioned observations and generalizations indicate that credit has survived all of recorded history and will continue to be present in all cultures. Its forms and manifestations are a product of the social and legal institutions. Furthermore, these observations indicate that credit involves concepts beyond the sophistication of a large segment of the population, a high proportion of whom are credit users.

Today, there is a growing number of civic leaders who feel the need to re-examine the consumer credit web that is being spun. Although based on traditional legal concepts which may be quite inappropriate to today's practices, credit is used by a public unfamiliar with credit law. Credit is extended by mail to consumers who never meet creditors. Methods of assessing charges are so complicated that the creditor or his clerks often cannot explain its terms to the consumer.

There exists a "credit-ability" gap at the very heart of the credit transaction, where the credit is generated. Those who should be most knowledgeable are least informed. Terminology has developed and phrases are used that inhibit efficient communication. Many common consumer credit methods are not even mentioned in college-level personal finance texts nor discussed in the schools. The traditionally taught $I = Prt$ formula, introduced in the grades, is considered unworkable for revolving credit and treacherous if applied to installment credit. Thus, the concept of a mutual agreement built on mutual understanding between parties of equal bargaining power and equal information is a myth today.

Today's style of credit is of modern creation. For a better understanding of consumer credit today, let us consider recent developments.

MODERN CONSUMER CREDIT

Installment contract credit closely parallels the introduction of the automobile and mass production. These developments required mass distribution which in turn required mass financing. Banks were reluctant to lend on cars, so in the 1920's sales finance companies rapidly developed to buy finance contracts from auto dealers who had negotiated directly with consumers. This is the origin of General Motors Acceptance Corporation, Commercial Investment Trust, and other credit adjuncts to large corporations which found the marriage of sales and credit profitable. Furthermore, installment sales methods, which worked so successfully in financing cars, were adapted to finance the sale of consumer durables such as household appliances.

There are two significant points in the history of auto installment credit. The first was in the summer of 1951 when the number of credit sales exceeded the number of cash sales for cars. The second was in 1955 when the length of the contract was extended to 36 and even 42 months. The use of easy credit terms to stimulate sales manifestly outmoded the traditional concept that installment sales credit should be limited to the car's equity. At this point, sales financing developed more credit than merely enough to cover the value of the goods financed.

There was another reason for the growth of installment credit. Higher rates could be charged for financing the purchasing of goods than for lending cash to consumers so they could pay cash prices. To a consumer who wants to buy more than his cash will permit, it makes little difference whether he obtains a loan with which to make a cash purchase or obtains financing from the seller of the goods. Legally, however, there has been a world of difference.

The cash borrower obtains a loan from a lender and pays interest. The buyer on credit obtains credit from a vendor and pays not interest but a time-price differential which has not been considered interest in the eyes of the law. Throughout history interest has been limited to a non-usurious rate; no such restrictions were applied to the time-price differential. Hence, sales financing, less subject to legal restraints, was more lucrative and, more important, naturally synchronized with the sales effort of the seller. In some cases the dealer would finance the credit sale, but more frequently the note would be discounted at the bank or sold to a sales finance company.

Furthermore, it was not possible for many consumers to obtain a bank loan in sufficient amounts to buy durables. Banks were reluctant to make large loans not secured by real property, and their unwillingness to finance such mobile and destructible property as an automobile brought into existence the previously mentioned sales finance companies, such as GMAC and CIT. Other lenders, such as the credit unions and consumer finance companies, then called small loan or consumer loan companies, generally made loans under $300. This was not enough to buy large durables.

Cash lending has frequently been suspect and suffers from total exposure. The rate of interest paid for funds to lend are obvious. So when this rate is compared with the rate charged consumers, the mark-up is no longer a trade secret and often subject to ridicule. On the other hand, a retailer with a 100 percent mark-up built into his cash price can include an even higher mark-up in his time-price without suffering exposure. Also, regulation of interest charges has been easier in the case of cash loans, since the amount of the loan is based on dollar facts, whereas the amount in sales credit depends on the validity of the cash price. For example, a $20 charge for a $100 loan is meaningful, but $20 for a $100 divan may actually be a charge of $70 to finance a $50 divan. Cash lending has been subject to usury legislation and restrictions often so unrealistic that the credit needs of many people could be met only through illegitimate lending or installment buying.

When such illegitimate cash lending became notoriously flagrant, it attracted the attention of reformers and industry spokesmen alike. After the turn of the century, consumer credit reforms were advocated. As early as 1909 Massachusetts passed the first consumer credit union law in the U.S., and in 1937 the U.S. Congress passed the Federal Credit Union Act to enable consumer groups residing in those states without state laws to form credit unions under a Federal Charter.

In 1911 the first effective Small Loan Law was enacted, followed in 1916 with the drafting of a Uniform Small Loan Law which set a high standard for cash lending. Both the credit union rate of 1 percent per month (12 percent per annum) on the unpaid balance and the small loan act of 3½ percent per month (42 percent per annum) exceeded the general usury rates. These creditors provided loan services that were licensed, regulated, and free of ambiguity as to loan terms. For example, the rate was applied to the unpaid balance, that is, the money actually out on loan. No other charges, such as insurance, investigation fee, or credit reports were permitted. These extra charges had often served as a subterfuge for the creditor to collect additional revenue from the debtor.

This hard rule of making only one charge was cracked in 1955 when Kansas, one of the few remaining states to adopt a small loan law, allowed extra charges for credit life insurance. By 1963, almost all states permitted selling insurance. In addition, during the 1950's, the rate based on the unpaid balance began to collapse in favor of a more attractive dollar-add-on rate based on the original unpaid balance. For reasons to be given in papers which follow, a $6 add-on rate may easily be misinterpreted as a 6 percent rate, whereas it is more nearly double that rate on the credit actually used by the consumer. Essentially, it is because the add-on rate is applied to the beginning balance and not to the actual amount of credit; therefore for an installment contract, the real rate is about double the add-on rate. *(See Rasmussen paper, p. 104.)*

The add-on form of rate quotation was successfully employed in installment sales credit. Despite Federal Trade Commission action in 1940 against General Motors and in 1941 against Ford Motor Company to prohibit their use in advertisements of 6 percent, and despite codes of ethics not to use percent for dollar add-ons, such practices prevailed to the competitive disadvantage of those who quoted a nondeceptive rate. By 1963, most consumer finance companies had retreated from use of rates on unpaid balances and stated and computed their rates on an add-on basis.

Banks were the last to enter into the general consumer credit field, yet they now hold the largest volume of such credit. Whereas the banks had been content to finance sales indirectly by buying the finance contracts from dealers and paying the dealer a kickback, gradually banks became more aggressive in extending credit to consumers. The credit unions and small loan companies had proved the consumer could be trusted and that it was profitable to lend to him. The opportunity for banks to function under sales finance dollar-add-on rates made direct lending attractive. A 1963 report of bank operations in several states in the northwest reported charges averaging 14½ percent. This is well above the much advertised "low bank rate" concept. Also by recent interpretation national banks may charge whatever rate competing lenders are authorized by states to charge, which may be as high as 300 percent.

As the restrictions in cash lending were relaxed, sales finance came under greater regulation. Often this was at the initiative of the industry to legalize rates at a level which might otherwise be held illegal as usurious if the time-price-differential doctrine should be challenged successfully in the courts.

REVOLVING CREDIT

A different form of credit is now on the rise. This is revolving credit, so called because the consumer who is extended a line of credit can charge up to the maximum amount, then continue to charge as payments are made, with a service charge on the amount being tumbled. Another name for this form of credit is "open-end," for at the time the agreement is negotiated neither party knows nor can predict the activity of an account or the exact time and amount of charges or payments. This contrasts with "closed-end" or "contract" credit for which all the terms—the amount of credit, the time and the amount of payments, and the rate—are determinant from the contract.

When revolving credit was introduced, it appealed to retailers. It helped reduce sales resistance to consumers short on cash, facilitated making additional credit purchases without writing and rewriting contracts, and helped families to level out peaks in expenditures for seasonal items, each of which would have been too small to finance independently. The 18 percent charge provided an incentive for the slow-paying 30-day-free charge-account customer to pay up. With the 300 percent to 450 percent mark-up on this money-service, plus the customary mark-up on the additional sales which credit induced, retailers could afford to lower the barriers to credit. Sears started using revolving credit in 1953, yet by 1959 it was only 13 percent of total volume. Spiegel pursued revolving credit aggressively and in 1961 was reported to attribute 40 percent of net profit to credit charges. Most stores now offer revolving credit.

Banks on the West Coast, in the Northeast, and in Chicago have been attracted to revolving credit and have applied it to cash lending through credit cards and check-credit plans. As recently as May of 1966, the *Wall Street Journal* carried a story headlined "Trickle of Banks to National Charge-Plan. Business May Become a Flood This Week." Only last March (1967) did the Federal Reserve Board establish a task group to study this new development. In August, Representative Wright Patman introduced legislation to curb banks from issuing unsolicited credit cards, a practice he termed to be a "dangerously unsafe and unsound banking practice."

More dramatic and more significant, but less apparent, is the growth of conglomerate mergers which affect the credit industry. Finance companies own insurance companies, mail-order houses, and retail chains. Credit unions own insurance companies and banks. E. B. Weiss, writing in a recent issue of *Advertising Age,* says banks must move into conglomerate mergers, possibly into manufacturing and merchandise retailing.

All these changes reflect a fight for survival, dictated by competitive pressures, waged in a sea of outdated legislation. While this goes on, the consumer's need for information basic to making prudent use of credit is neglected and even exploited.

The need for legislative reform has been recognized. In his paper, Leslie Dix will report on the progress of the Uniform Consumer Credit Code. The need for informative labeling of consumer credit was recognized by then-Professor Paul Douglas many years before he introduced such legislation as a Senator in 1960. Although it is still before the Congress, it has been adopted by most Canadian provinces, Massachusetts and some other states, and the Department of Defense. This legislative proposal has enjoyed the full support of the American Home Economics Association. AHEA recognized the growing importance of consumer credit back in 1957 when it published in the *Journal of Home Economics* a series of articles which were reprinted and widely circulated by the Household Finance Corporation.(*1*)

CREDIT AND THE ECONOMY

A few figures may help demonstrate the importance of credit and underscore the claim that today's consumer credit is largely a post-World War II phenomenon (see Table 1, next page):

The federal debt growth from $38 billion in 1936 to $230 billion in 1946 reflects the deficit spending of World War II. Its growth since 1946, however, is meager in relation to other debts. From 1946 the greatest growth has been in consumer debt together with state and local government debt. This reflects the need to build schools and house the growing families, to furnish and equip houses, and to build cars and roads to transport the expanding population. Corporation debt expanded with the growing gross national product. All these debts continue to increase. Despite the popular pastime of ridiculing the federal government for its debt, this debt has grown the least. Debt in the private sector has expanded the most. For example, if the federal debt had

TABLE 1. Net Debt and Gross National Product
(in billions of dollars)

YEAR	NET DEBT								GNP
					INDIVIDUAL AND NON-CORPORATE				
	Total	Federal	State & Local	Corporate	Farm	Mortgage	Commercial & Financial	Consumer	
1936	180	38	16	76	9	24	11	6	83
1946	397	230	14	94	8	33	12	8	209
1956	708	225	43	232	20	121	24	43	419
1966	1345	279	101	497	42	279	52	95	743

SOURCE: Economic Report of the President, February 1968, Tables B-1 and B-58.

grown as fast as consumer debt, it would be roughly 10 times its present size. The consumer debt is not only big, but disturbing to the economy. The September 1967 *Consumer Reports* dramatically traced the growth pattern of consumer installment debt with a chart captioned "Wild waves of growth on the rising sea of installment debt have been economic storm signals."

All signs indicate a growing concern for the harnessing of this tremendous force which is capable of nourishing an expanding economy and developing a viable society, but which is also capable of bringing misery into the homes of families and causing chronic illness for the economy.

I am certain of one thing. Unless consumer credit is made meaningful to the consumer, he cannot be expected to exercise responsible and prudent use of it. Without consumer control through responsible and informed choice, the very essence of free enterprise is lost.

Future developments in consumer credit may well write the future of our economy. May each of us as citizens, students, and teachers give our attention to this area so we may help direct and shape its future. We can help write history; let us do it intelligently.

REFERENCE

1. Brew, Margaret L., "Trends in Consumer Credit," Vol. 49, No. 4, p. 274; Emma Holmes, "Who Uses Consumer Credit?," Vol. 49, No. 5, p. 340; and Robert W. Johnson, "What Cost Consumer Credit?," Vol. 49, No. 6, p. 415.

WHAT IS ELECTRONIC DATA PROCESSING?

CLAUDE RICE

Electronic data processing is the treatment of data by the use of electronic equipment. Since even a radio newscast treats data electronically, however, this definition is much too general. Therefore, let us define *data* as factual material or statistics used as a basis for discussion, decision, calculating, or measuring, and *processing* as the action which makes such data usable for a specified purpose.

The first successful digital computer was built by a French mathematician, Blaise Pascal, in 1642. It was a mechanical contraption with wheels on which the decimal digits 0 through 9 were inscribed. The wheels rotated on an axle by means of gears and ratchets. This machine was the forerunner of the adding machine.

The ancestor of the modern digital stored-program computer was introduced in 1812 by a British mathematician, Charles Babbage. His machine was called a "difference engine" because it was designed to calculate values of a polynominal by starting from the constant high-order difference and accumulating intermediate differences back to the value of the function itself. Many tables used in navigation and astronomy involve polynominal functions, and in Babbage's time the tables were derived by the hand calculations of large teams of mathematicians.

Babbage completed a small model of his difference engine that could calculate with six-digit accuracy; then he proposed and designed a much more elaborate machine that would handle up to sixth-order differences with an accuracy of 20 digits. The initial stages of his work had the financial backing of the British government, but it was discontinued for various reasons after the expenditure of about $75,000. Babbage also envisioned a far more complex machine called an "analytical engine." This design was to be capable of obeying many instructions, both arithmetic and logical, and was to include a storage of 1,000 words. Unfortunately, Babbage was too far ahead of his time, and the mechanical techniques for building his analytical engine were not available.

It was not until over 100 years after Babbage's work that such a machine was first completed. This machine, which was the first large-scale general purpose digital computer, was designed by Howard Aiken at Harvard University and built by the International Business Machine Corporation. It was called the "automatic sequence controlled calculator," or more commonly, the Mark I. Electromechanical in nature, the machine used relays and mechanical counters. It had a storage capacity of 132 words, and took 3 seconds to add 2 numbers, or 60 seconds to divide them. Instructions were not stored internally, but were fed to the machine by punched paper tape.

A later invention made possible great advances in speed through the use of vacuum tubes to replace the relays of Mark I. The ENIAC (Electronic Numerical Integrator and Calculator), designed by J. P. Echert and J. M. Mauchly, was completed at the University of Pennsylvania in 1946.

It was also in 1946 that John Von Newmann, in a classic proposal for computer design, suggested the important concept of placing the program instruction in storage with the data being processed. His concept included nearly all the features of present-day computers, together with the design of circuits for the use of the binary number system for storage and arithmetic. A machine built on these principals, called the EDVAC (Electronic Discrete Variable Automatic Computer) began operation in 1952. A direct descendant of ENIAC and EDVAC was the UNIVAC I, which appeared on the market in 1951.

Since 1951 there has been a continuing advance in the design and components of computers, and particularly in the development and use of transistors in place of vacuum tubes, larger storage capacity and greatly increased speeds, and further diversification of instructions and programming techniques.

KINDS OF DATA PROCESSING

At this point we should make a distinction between *data processing* and *electronic data processing* computers. *Electronic data processing* refers only to the use of the electronic computer and not to the electromechanical tabulating equipment that business enterprises have used for the last 30 to 40 years.

In processing data, the punched card and the code used to record alphabetical and numerical information are the same as those developed by Herman Hollerith for recording the census of 1890. Today's standard punched card is the peculiar size that it is because of the size of the dollar bill of Hollerith's time. At that time the government had available many file cabinets exactly the size of the old-fashioned dollar bills. Because the cabinets were readily available for future needs the card size was fixed to their measurements.

Mr. Hollerith's code is still the standard of the data processing industry and probably will continue to be so. While the punched cards are rapidly becoming obsolete as media for storing and processing information, they are still the most convenient means for providing that initial information with which the computers work.

A great number of us tend to associate the old IBM tabulating machines with electronic data processing. However, in the business community the small computer is taking over the jobs formerly done by such card tabulating equipment, referred to as *Unit Record Equipment*.

The general definition for this older equipment gives us a clue to one of the basic differences between the older systems and modern computers. As the words *Unit Record* indicate, this type of equipment handled one record at a time. Even though there were procedures by which two or three records could be considered simultaneously, the primary concept dealt with one card at a time.

In contrast, the modern computer has the ability to store, review, and process large amounts of information. The storage capacity runs from 1,000 characters to hundreds of thousands of characters. In addition to the storage capacity of the computer itself, disc and tape attachments permit rapid access to an almost unlimited amount of information.

The real value of the modern computer and the major factor in its usefulness (and the basis for the science-fiction stories about the machine doing our thinking for us) lie in its ability to follow a program and to take alternative avenues through that program. It selects the alternative avenues based upon variation in the information available or upon the results of its own calculations.

The type of choice of alternates or decisions that a computer is capable of performing is extremely simple. The decision is always "Yes" or "No." There are no other selections possible.

To illustrate, let's consider the process of opening the door of a hotel room. Assume that you have been given the correct key and are ready to insert the key in the lock. When you try to insert the key, it either fits or it doesn't. If it doesn't fit, you attempt to turn the key over and try again. If it still doesn't fit, you call the room clerk.

If it does fit, you try to turn the key to the right. If that fails, you try to turn it to the left. If that fails, you check the number marked on the key and find you have the wrong key and call the room clerk.

If the door unlocks, then you push to open. If that fails, you pull to open. If that fails, you check for another catch and try that. If there is no other catch, you call the room clerk.

The computer can make these same types of checks and take preprogrammed action as directed.

An important point to remember is that *the computer will not think up any solutions.* It must have been supplied with each test to be made and must be provided with a route to take after the test is made. Every question it asks calls for a "yea" or "nay" answer, and the next step must be specified for each of the alternatives.

By combining a series of these simple "yea" or "nay" decisions, an almost unlimited number of alternatives can be probed. Only 10 consecutive tests will probe 2^{10} possibilities or 1,024 alternatives. This vast number of alternatives, coupled with the rapidity with which the decisions can be made, account for the real value of the computer. The slowest of the business computers now in use will go through the routine of 10 separate levels in less than 1/100th of a second and the faster computers in less than 1/1,000th of a second.

APPLICATIONS TO CONSUMER CREDIT

How can the computer assist in the problems of individual family financial management? In the same way it can help in industry—by making more information available to those making decisions.

At present, little or no progress is being made in this area. Some local credit bureaus are using computers to help keep records up to date on personal credit files. The value of these services is limited by the limited source information available. This is not the fault of the electronic equipment, but rather of the information collection, or "input system."

Much too often, families do not realize how much debt they are incurring. Creditors who extend excessive credit often do not have all of the useful facts, not because they don't want it, but because the information is not readily available.

As soon as the consumer finance industry or a government agency requires a central clearinghouse of all credit extension, the computer will be ready to provide an immediate answer to the intelligent inquiries.

To illustrate, let us assume that a state establishes a credit recording office in much the same fashion as we now have recorders for deeds and mortgages and that each credit extension calling for payments more than 30 days ahead is required to be reported. The report would have to include the following:

Name Social security number
Date credit extended
Amount of each payment
Frequency of each payment
  Weekly Monthly
  Semimonthly Other
Date full payment is due
Name of credit extender
Brief description of basis for debt

This information could be stored by electronic data processing equipment and be almost instantly available to any interested person. The availability of this information to all parties involved would prevent most overextension of credit. The analysis of each individual's financial condition would help many realize their situation before it became critical. The "credit drunk" could promptly be identified.

We are a long way from making such a system work, but the difficulties are in our social and legal impediments and not in the technical limitation of our data processing systems.

Currently, a new use of computers in the solution of family financial problems is one that I have been instrumental in designing. This is a library of computer programs to help debt-ridden individuals allocate their pay checks among creditors. The system was originally designed for use by wage-earner trustees operating under Chapter XIII of the Bankruptcy Act but is equally suitable for use by consumer credit counseling services, commercial pro-rata services, and attorneys.

In this program the computer accepts initial instruction as to who is owed, what amounts are to be paid to each, how much the debtor is to pay, what is to happen if he pays too little, and so on. Once this information is recorded, the only other information needed is how much money is deposited to the bank account.

The service is now available and is being utilized by small offices such as the Trustee of the Federal Court in Madison, Wisconsin. The cost of service would have been prohibitive had the Trustee tried to install and program his own system, for in addition to the actual cost of equipment and its maintenance, there are operators' salaries, programming and testing expenditures, and so forth.

Machine acquisition cost, whether it be purchase or rental, commences as soon as the equipment is installed, and writing and testing adequate programs requires a long lead time which in most instances is longer and more expensive than is anticipated. The answer for the small user is a rental or joint use of equipment, or "package" programs. This permits small users to have the speed and capacity of sophisticated equipment and programs.

Most business enterprises are becoming increasingly aware of the possibilities of electronic data processing. Those not already utilizing it are searching in this direction. However, computers are not magic machines that automatically solve problems. In a data processing system, things don't happen automatically; they are caused to happen. Somebody has to think out every possible situation, and then provide for it.

No one should attempt to make use of electronic processing without a careful study of how such equipment can be used and what advantages are to be gained. I repeat: the computer itself is not magic; it is only a link in the chain of equipment, personnel, and procedures designed to achieve a result.

Moreover, electronic data processing equipment is only one part of an overall system which includes actual programming of the equipment. Such a program cannot exceed the capability of the people designing it. In this area, experience has no substitute.

There are two major reasons why a system might be unsuccessful: (1) the design of the system may be incomplete and inadequate, and (2) an adequately designed system may be operated in a manner different from that for which it was designed. The most common error made in the system design is to overlook the exceptions to the rule of the system. This inability to design into a system the method of handling exceptions can be crippling, and if a broad and flexible program is not provided, more time and energy can be spent in resolving exceptions than is saved by the system handling the general rule. The systems operations can best be managed by the early education, acceptance, and cooperation of operating personnel.

Electronic data processing and computers are here to stay. They are the tools that serve the people who operate them and in this way play an increasingly important role in the consumer credit industry.

UNIVERSAL CREDIT CARDS

BILL W. DIXON

Today we are in the midst of a financial revolution that has been described as creating the "checkless-cashless society." Some bankers feel that the words checkless and cashless do not fully convey the dramatic changes that are now being designed to shape all our financial lives, and they prefer to describe the financial future as a "paperless society." What role, if any, will universal credit cards play in this financial future?

EVOLUTION OF A UNIVERSAL CREDIT CARD

Most families know credit cards through the capable efforts of national oil companies and major retailers—primarily department stores. In some instances, the retailers have grouped together and the customer carries a single card that can be used with a limited number of different merchants. These cards cost nothing to acquire and usually offer the customer a "free" period in which to pay his bill at no extra charge. In most instances, an optional extended payment plan is available ranging in cost from one to one and one-half percent per month.

During the post-World-War-II period, the so-called travel and entertainment (T & E) cards became very popular. These include the cards of American Express, Diners Club, Carte Blanche, and the Air Travel Card. To acquire one of these cards, the customer, usually a business person, pays an annual membership fee of $10 or $12. This type of expenditure is generally paid in full during the free period but now can be extended at a service charge rate of one or one and one-half percent per month.

It has become increasingly clear to bankers and other financial experts, postal authorities, regulatory authorities, equipment manufacturers, and communications firms that our private and business lives are rapidly being submerged by a sea of paper of all types: monthly bills, sales receipts, checks, deposit acknowledgments, insurance premium notices, etc. In 1967, for example, over 17 billion checks were written. By 1975, unless our system of transferring money changes, more than 25 billion checks will be written. The cost to business and consumers of clearing this mountain of paper is estimated at 3½ billion dollars annually. In addition to this expense, there will be physical limitations (not enough people and machines that are fast enough) within our banking system for handling this anticipated volume of paper.

Recognizing the increasing paper flow, banks entered the credit card field in the 1950's and, with the maturing of advanced data processing techniques, their credit cards have proliferated by the millions in recent years. Although traditionally banking is slow to change, most bankers recognize the need for a single — i.e., universal — credit card. Such a card could be used to charge all types of expenses, from gas and oil to major purchases such as furniture and clothing. It could also be used to purchase these articles wherever in the world the customer happened to be at any time. The customer would, of course, receive one consolidated monthly bill. But such a card would have only a limited effect on reducing paper flow and consumer expense since most consumer purchases are still made with some form of cash payment.

The American Bankers Association has guided the considerations concerning a universal credit card. However, developments in banking are moving rapidly, and rather than restrict future planning to a universal credit card, many bankers feel that an all-purpose identification card will evolve. This card will be used for many purposes such as instant and accurate customer identification, cash buying, charge purchasing, installment borrowing, and check cashing.

CONSUMER CREDIT IN TRANSITION

Banking has already taken steps toward the identification card concept which many believe will open the door to a paperless financial society. Some of the developments aren't readily recognized by consumers, while others—such as bank credit card plans—have been launched with a great deal of success.

One of these transitional steps is a significant achievement of the American Bankers Association, the development and implementation of a machine-readable numbering system called Magnetic Ink Character Recognition. This system, called MICR, has until now enabled banks to continue processing the ever-growing volume of checks with efficiency.

Another step in this evolution has been the introduction of bank-sponsored payroll accounting plans. The bank performs all the payroll accounting functions for the employer and on payday simply credits the employee's checking account for the net amount of his pay. This type of service reduces the number of checks flowing through our economy. Also, it is frequently possible for a customer to authorize his bank to automatically charge his checking account each month to pay recurring bills such as loan payments, mortgage payments, utility bills, insurance premiums, etc. These automatic payments (transfer of funds) not only reduce the flow of paper, but open a whole new area for banking in family budgeting and counseling.

During the period of transition, however, specifically in the first wave of bank-sponsored charge card plans which reached its crest during the 1950's, some severe financial losses resulted in several important instances. Perhaps as a competitive consequence, other banks in the 1950's began developing variations of what has been called overdraft or check credit revolving credit plans. Usually an overdraft borrowing arrangement requires that a customer maintain a checking account that he can automatically overdraw, at which point the bank will credit his checking account in increments of generally $100. The customer generally pays a revolving credit charge of one percent per month on this overdraft loan.

Other banks do not require the maintenance of a checking account and instead establish a line of credit mutually with the customer, as has been done for corporations for years. The customer can activate the line of credit at any time merely by negotiating a regular bank check which, when received by the bank, is cleared through the installment loan department rather than through the bookkeeping department. Again, the charge is typically one percent per month.

Most banks in the state of Wisconsin charge a similar rate for all regular consumer installment personal loans. The rate is frequently quoted in terms of add-on interest, $6 per $100 per year, rather than the effective rate (cost to customer) of almost 12 percent per year which is equal to approximately 1 percent per month. Thus, the attractive convenience and privacy of borrowing through the use of a check does not normally cost the customer any more than a traditional bank installment loan. This type of revolving credit is becoming increasingly popular and may eventually replace consumer personal loans as we now know them.

There is at present a revolving credit plan known as Bankardchek. This program requires that the customer maintain a checking account which differs in that the bank, for a fee, supplies the customer with a quantity of guaranteed checks, similar to travelers' checks. When the checks clear through the customer's checking account, they create an overdraft, and, again, the bank credits the customer's checking account, creating a loan. The cost of this type of revolving credit, which incidentally requires a plastic check identification card, is one percent per month plus an annual membership fee.

BANK CARD RELATIONSHIPS

Bank charge card programs vary widely in scope. Most, however, are family-oriented cards which a customer can use to shop at a wide variety of merchants. At the First Wisconsin National Bank, for example, the charge card is honored at more than 10,000 business places throughout Wisconsin. In addition, if a customer wishes, he can present his card at any participating bank and obtain a cash advance up to $250 in a single day. In the last several years, bank-sponsored charge card plans have been established in most important retail marketing areas throughout the nation.

As a result of the increasing number of charge card plans in some areas, banks have started to establish charge card interrelationships. Thus, it is possible for a Chicago resident holding a Midwest Bank Card to shop in several different stores in different states without having to reestablish his credit. The Bank of America, the grandfather of charge card plans, has introduced a franchise plan in different parts of the country. Thus, a Bank of America cardholder can shop in California, Boston, Philadelphia, and in other parts of the country. As a matter of fact, a BankAmericard is also good in Europe.

Another example of these interrelationships is found in Interbank Card, Inc. Hopefully, in 1968, a charge card customer of First Wisconsin National Bank, a member of Interbank, will be able to shop in Michigan, New York State, Arizona, Washington, California, and the city of Pittsburgh. Interbank Card anticipates continued discussions with other regional and national bank-sponsored charge card plans with the eventual goal of establishing a nationwide clearing system to facilitate the interchange of charge card sales drafts.

Most bankers agree that customers will eventually demand a universal bank-oriented charge card which he will be free to use for all of his purchases wherever he may be. When such a system does develop, it will probably be one of the last steps in banking's current period of transition and will result in the introduction of the identification card concept which should eventually replace the bank credit card as it exists today.

COST OF CHARGE CARDS

What do bank charge cards cost the consumer and retailer? Most banks charge the merchant two and one-half to five percent. This fee is paid to compensate the bank for the credit and collection function which it assumed for the merchant. The merchant, under most bank plans, receives immediate credit for the proceeds of his sale and thus can more effectively utilize his working capital.

Most plans offer the customer the option of paying his charge account in full within 25 days without a charge of any kind. There is no charge for the card either. If the customer elects to extend or revolve his account balance, he may do so at a monthly cost ranging from one to one and one-half percent. As an example, at the First Wisconsin Bank the interest charge to the customer is one percent per month. However, because of the economic characteristics of the retail charge account business, the traditional department store rate of one and one-half percent per month is realistic and still represents an equitable charge to the customer. I won't get into the economics of this logic except to mention that the average credit sales transaction is about $15, which means that First Wisconsin processes a staggering number of transactions annually. Attendant operating expenses are much greater in processing this type of business than in the conventional installment loan department.

First Wisconsin entered this charge account banking area for a wide variety of reasons, one of which is that it can be a profitable and proper retail banking service. Just as important is the invaluable experience in making a transition to the cashless-checkless society, for dealing with thousands of merchants and literally hundreds of thousands of consumers requires the development of retail banking and retail marketing skills of a much vaster scope than we ever dreamed. In my opinion, charge account banking and the development of national interchange capabilities between systems is probably the most significant impetus toward the checkless-cashless society that we all will experience during the period of transition.

REVOLVING CREDIT USAGE

Let us explore some of the controversy surrounding bank charge card plans. Most customers view charge card plans as a consolidation of recurring indebtedness rather than as another layer of consumer debt.

Interbank Card, Inc., when it becomes operational, will have more than five million charge cards outstanding. In the First Wisconsin National Bank system, almost one million charge cards have been issued to residents of Wisconsin. In 1968 one out of every three families will have received a First Wisconsin Charge Card. As evidence of its consumer acceptance, the plan is operating at volume levels not expected until 1970.

There has been a great deal of controversy in certain areas of the country and in Congress, in addition to some comment from regulatory authorities, about the mass mailing of millions of unsolicited cards by banks launching their charge card programs. Some banks deserve the criticism they are receiving. These same banks in many instances have incurred substantial fraud and credit losses as a result of generally unsound practices.

Other banks have mailed unsolicited charge cards only to established customers. Admittedly, mistakes have occurred through errors in judgment—this is inevitable when a new banking function of this scope is launched. At the First Wisconsin National Bank, since March 1966 when the program was launched, losses have been under one percent of the total volume processed, about half the rate projected. It is hoped that this favorable loss ratio can be maintained, because bad debt losses represent not only an economic waste but also have profound adverse human implications.

There are those who feel that charge card programs are not the function of a bank. Banks were criticized in the 1930's for setting up programs for installment lending; in the 1940's they were criticized for entering the home mortgage business. If banks had not entered the charge card field and supplied a financial service customers want, the void would have again been filled by a non-banking corporation that does not have the quasi-public accountability that banking has.

WHO ARE CHARGE CARD USERS?

Recently, the First Wisconsin National Bank completed two rather interesting marketing surveys which tell us a lot about a typical charge card user. The surveys indicated that the Bank's charge card had its greatest impact on those family units that are "on the go." They were young, well educated, with moderate-to-high incomes. Families in this group tended to be larger than average, with children under 18. These young families appreciated the convenience and flexibility of credit card shopping since a single charge card was accepted at more than 10,000 retail stores and each month brought only one statement from the bank, payable with a single check. Such a system can be a great help in financial control and budgeting for the family.

Let us consider a few specifics about the "typical charge card user" of the surveys. He is most frequently in his 20's or 30's and has an income ranging from $8,000 to $12,000 per year. The primary wage earner is generally employed in a professional or managerial capacity and frequently is a college graduate or has had some formal education or vocational training. The lady of the household tends to use her card a bit more frequently than her husband.

The First Wisconsin survey showed that family units with incomes of $4,000 or less were not generally interested in charge cards. The same lack of interest in bank charge cards was found in the higher income family unit which, typically, makes up the older segments of our population. Interestingly, more than 60 percent of those families applying to First Wisconsin for a charge card had never had a banking relationship with the bank. And yet this group represents an additional market for other banking services, such as home mortgages, installment loans, and checking and savings accounts.

What does the future hold for revolving credit? By 1975, 60 percent of the population of 224 million will be under 35 years of age. Young people will be filling management ranks that are now reserved for individuals with 20 to 25 years of experience. This group will have a different attitude toward life generally. They have never known a depression. They come from families where one or both parents have always worked. They have lived in comfortable homes with one or two cars and all the latest electrical conveniences; they have always known about jets and space flights; they have always known and *not* feared computers; and they have always lived in and accepted an economy dominated by checks and credit cards.

This young modern market won't postpone purchases as their parents did, and at an earlier time of life they will want to take advantage of all of the good things our standard of living has created. It is anticipated that this group will finance a substantial portion of their purchases on revolving credit and that revolving credit outstandings will grow at a sharply accelerated rate in the years ahead.

SUMMARY

Those specialists who teach and counsel about credit, as well as those of us who extend all types of credit, have some rather profound responsibilities as we move rapidly toward the checkless-cashless society and the use of a universal identification card.

It is agreed that some of the amoral policies pursued by certain credit grantors must stop. On the other hand, the consumer has to be taught how to use credit properly so that he avoids the tremendous psychological and financial problems that come about through the misuse of credit. An ever-increasing rate of personal bankruptcies doesn't permanently solve a consumer's financial problems. A bankrupt person usually gets into financial trouble more than once and needs the type of guidance and control that should come from education, experience, and the financial community itself. Even with the great growth in revolving credit anticipated, credit grantors should not expect to incur substantial credit losses.

In spite of the objections concerning the negative aspects of credit, the economic facts of life are that the amount of credit outstanding will continue to grow and that it is this very credit mechanism that is responsible, to a large degree, for our ever-increasing standard of living. Most families are, and will continue to be, the best managers of their personal finances. With assistance from professional organizations such as the American Home Economics Association and through the financial management techniques that will become available as a by-product of the checkless-cashless society, families could well continue to be skilled money managers in the future.

The universal credit card or, as it has been renamed, the personal identification card, has important implications for all of us. I am confident that for the most part the results of this new financial concept will be of positive value to all concerned.

In closing, I would like to acknowledge the excellent assistance of the staff of the American Bankers Association in preparing my remarks.

AN ELECTRONIC CASH AND CREDIT SYSTEM

ROBERT H. WHITBY

Some of the significant recent developments in the world of money and credit center on bank credit cards and banking and credit applications of electronic data processing computers. Let us consider these developments as important building blocks for the future as we think ahead 15 or 20 years.

Many people are already calling it the "checkless-cashless society." Others call it the "push-button economy," while still others refer to it as the "paperless society." These labels may all be correct, for by 1985, money, checks, and credit cards as we know them today could well be obsolete mediums of exchange for most consumer transactions.

Instead of paying for groceries at the supermarket checkout counter by cash, the housewife of the future will simply hand the store clerk a unique "funds identification card," which she alone can use. This card will be similar to the credit cards we know today, except that it will be machine-readable and nonforgeable, bearing a special customer identification number (like a social security number) which stays with the holder for life, no matter where he goes or what business he is in.

The clerk of the future, before ringing up the amount of purchase, will insert this identification card into an electronic apparatus which "reads" the card and establishes immediately and automatically an electronic communication to the customer's bank account and the store's bank account. At this point, the bank's own electronic systems will be activated, searching electronically in computerized central files for the deposit or credit balance of both the customer and the store.

Meanwhile, the clerk at the point of the sale will enter the amount of the transaction into the system by activating special keys on the terminal device, much the same way that sales are rung up today on cash registers. These data will be instantaneously transmitted to the customer's bank to determine automatically whether the customer has sufficient cash or credit balances in his account to cover the transaction. Assuming everything is verified, the computer at the customer's bank will deduct the transaction amount from the customer's account and will electronically transfer a like amount to the store's bank. There another computer will credit the store's account and send a signal back to the terminal device to indicate the completion of the transaction. *From start to finish, the whole process might take 5 to 10 seconds.*

This simple, foolproof feat might then be repeated a few minutes later by the same housewife at a department store, a gas station, or even at home using a telephone equipped with a special card-reading feature.

Terminal devices designed to receive funds identification cards will be found at points of sale in most stores and in most service outlets. "Touch-Tone" telephones, with an optional bank-by-phone feature, will be universally available. Several hundred million transactions of the type described will be made daily, facilitating greater economy, security, and convenience than are realized today through the use of cash, checks, and credit cards. The complete automation of the funds transfer system will mean the adoption of an entirely new philosophy of money and monetary exchange and new service structures for banking, credit, and retailing.

A host of technical challenges and problems come to mind when one considers the sophisticated equipment necessary to make this new electronic system work:

- Designing an identifying card that is both nonforgeable and machine-readable and that can be mass-produced inexpensively.
- Producing an inexpensive terminal device which can read the card, permit variable data to be

keyed in, produce receipts if necessary, and advise the clerk if a card is not backed by sufficient bank funds.

- Designing a communications network, linking points of sale with banks, capable of automatically and instantaneously locating all the banks of the payor and payee.
- Designing computerized central information files that are instantly accessible in order to provide current funds balance data and permit automatic credits and debits.
- Designing an audit-trail feature which will automatically record all transactions as they occur so that monthly transaction statements can be prepared and errors traced.

As difficult as these problems might appear, present computer technology is sufficiently advanced that none of these requirements is insurmountable. In fact, it is the nontechnical problems, the problems involving people, that are posing the biggest hindrances to the evolution of the cashless society. These nontechnical considerations will also have the greatest impact on the banking industry, the credit industry, and the consumer over the next two decades.

IMPLICATIONS FOR BANKING

Let us explore just a few of the implications of the electronic system, looking at its potential advantages, the structural changes it will bring about, and some of the obvious problems it raises. Perhaps the most important implications are in banking.

Check Processing. It should be apparent that the new system will get the banks out of the check-processing business. This can come none too soon for the banks, which are now burdened with processing over 17 billion checks per year. By 1975 this could reach 25 billion checks a year, and it is estimated that by 1985 about 50 billion checks per year will choke the banking system if the check is not replaced by some equally acceptable medium of exchange such as the electronic system we have discussed. The elimination of check processing will also mean the replacement of thousands of check-processing personnel and equipment, resulting in certain economic dislocation, but should also result in dramatic long-term savings.

Retail Credit. The electronic cash and credit system will almost certainly get the banks participating in, if not completely taking over, the business of extending consumer credit for retail charge sales, largely taking this function out of the hands of retail merchants. This evolution is already apparent in the various bank charge systems already in operation.

By 1985, it is likely that bank credit cards will have become machine readable and that the bank credit card itself will be the funds identification card everyone will carry. This card could be used for either a cash purchase, a 30-day charge purchase, or a revolving charge purchase at the discretion of the user and in accordance with established bank lines of credit. At the time of purchase, the customer would indicate which type of payment he prefers, and this preference would be keyed in by the clerk along with the transaction data. For a cash-transfer purchase, the customer might automatically receive a discount, say one-half of one percent; for a one-month charge, the sale would be transacted at parity; and for a revolving credit purchase, a monthly interest premium could automatically be calculated and deducted by the bank's computer.

Such a system would get retail merchants out of the money-changing and credit-granting business, would give the housewife a better appreciation for the time value of money, and would give the bank a valuable new source of interest revenues, based on consumer credit.

Central Files. A necessary component of the system described is that each participating bank should have access to a computerized central information file in which the cash and credit transaction records of each customer are stored. Once these files are operable, a variety of potential uses comes to mind. For example, installment and mortgage loan processing could be turned over to a bank's computers which would then analyze the customer's credit and account history, establish credit limits, and finally define the repayment terms best suited to the customer's asset position and cash-flow. A more elaborate system could even provide, when necessary, an automatic, computerized inquiry of other central information files located in other banks or in other credit bureaus that are "on-line" (electronically connected) to the total system.

New Services. A wide variety of new banking services for commercial clients will also be possible. One obvious service might be an automatic payroll system in which all the employees of a company would be electronically paid once a month. Another service might be an automatic billing and payment system in which utility bills, interest charges, and principal payments on revolving loans and installment loans would be electronically deducted from all customers in the bank who owed, and paid once a month to all commercial clients of the bank who had appropriate receivables.

Other, more elaborate services such as inventory control, sales reporting, and marketing analysis are also possible. At the time of purchase, a machine-readable tag from a piece of merchandise could be inserted in the terminal device along with the customer's card, or code numbers identifying the merchandise could be keyed in by the clerk. The system's computers could simultaneously make deductions from inventory records, make additions to a commissions account for the salesman ringing up the sale, and assemble marketing data such as time of day, week, or month when certain kinds of merchandise move. Demographic profiles of recent customers (age, sex, and income) could be made available to the merchants. Purchase orders for new stock could be generated automatically by the computer system, once the inventory records indicated that the reorder point had been reached.

The list of potential services which a totally computerized transaction system would make possible is almost endless. It is clear that the banks have much to gain from such a system. This fact explains why it is the banks that are exercising most of the leadership in building tomorrow's transaction system.

IMPLICATIONS FOR CREDIT REPORTING

The emergence of a cashless society also promises to have a dramatic impact on the credit-reporting industry and the credit-granting industry. Let us consider briefly how this new system could affect today's credit-reporting industry, particularly the credit bureaus:

Fewer Credit Bureaus. The most important development will be a large-scale reduction in the number of local credit bureaus and credit-reporting organizations. Computerized information retrieval systems will be installed by the more progressive credit organizations. (Banks might even venture into this area, using their equipment, know-how, and central information files as a base from which to grow.) At any rate, the trend will be toward larger bureaus with regional and even national affiliations to provide thorough credit history checks at computer speeds with no redundancy of effort or file space.

Today, as many as 25 small credit bureaus serve some metropolitan areas, each providing fragmentary, non-standardized information on some small percentage of the community's total population. However, computerized credit information networks of the future will employ standardized credit report formats and will draw from relatively complete information files on virtually all residents of a given area. The capacity of these files will be supplemented by the facility to acquire information automatically over communications lines from the files of other bureaus in other cities when necessary (as in the case of an individual who moves from one city to another, requiring a check of credit activity at the previous address).

New Services. A variety of new services might be offered by the computerized credit bureau of the future. Instead of merely providing the subscribing inquirer with a credit history of the credit applicant, the bureaus could easily get into the business of providing computerized credit analyses. Subscribing credit grantors would provide the bureau with the quantitative degrees of credit risk it preferred to allow. (These criteria could be changed from time to time to reflect seasonal liquidity pressures, etc.) Using the subscriber's evaluation criteria, the bureau's computers would then electronically credit-score each applicant after searching its own credit file and also employing other data provided at the time of credit application. Determination of the most desirable credit limit and repayment terms for each applicant could also be accomplished electronically by the bureau as a service to its subscribers.

Updating of Information. The ability to update credit history files promptly and completely will be a significant benefit of a computerized information system. If installment payments lag, or if payment defaults occur, this information can be made available automatically to the credit bureau over data networks. Re-evaluations of limits and repayment terms could be automatically generated at the subscriber's request.

National Systems. The preceding discussion might frighten the small credit bureau manager, and rightly so. It appears that even large bureaus (which are still tied to systems using hand-retrieved files and containing scraps of unorganized credit history) might suddenly find themselves without a useful service to perform. Within the next few months, giant strides will be taken in the direction of national systems of computer information networks, capable of supplying credit information in a matter of seconds on almost any individual in the country to bankers and other credit grantors. Some of the credit information enterprises or credit bureaus now being automated will shortly be operational on a regional or national basis. The major efforts under way include:

- Project "CB 360" in Dallas and Houston. The Associated Credit Bureaus of America, Inc., International Business Machines Corp., and the credit bureaus of Dallas and Greater Houston are developing computerized credit operations in both cities through a joint effort.
- Computer Reporting Systems, Inc., Los Angeles. This organization is organizing a computer interchange system with 42 local credit bureaus in Southern California, Arizona, and Nevada.
- Credit Bureaus, Inc., Salem, Oregon, which owns the San Francisco and the San Jose credit bureaus in California, as well as another 38 bureaus in Oregon, Washington, and Idaho. This organization is planning a computer tie-in with the Credit Reporting Systems group in Southern California to create a Pacific Coast network which should ultimately connect with the Dallas-Houston network.
- Credit Data Corporation with computerized credit bureaus in Los Angeles, San Francisco, and Detroit. It is entering the New York area with the idea of implementing a national reporting system.
- Hooper-Holmes Bureau, Inc., of Morristown, New Jersey. This 67-year-old specialist in derogatory information for insurance and other industries is arranging for a computer interconnection of its national network of offices in 50 states.
- Associated Credit Bureaus of America. The plan is to have a nationwide system operating with 27 computerized regional credit bureaus by 1972, all linked to one another with file-processing equipment.

IMPLICATIONS FOR CREDIT GRANTING

Let us now consider what changes the cashless society might be expected to bring to the credit-granting industry. Perhaps the most significant changes center around the new role banks will come to play in the credit-granting industry, as discussed earlier. Many of today's credit grantors can be expected to lose business to the banks, some gladly, others painfully. Other credit grantors will grow with the system, some even taking leadership in its development.

Fewer Retail Store Grantors. Most retail stores will probably be relieved to turn their credit operations over to a bank-sponsored system since few retail store credit departments are profit makers. Since both large and small merchants will be able to offer credit by honoring the universal funds card, the promotional value some merchants now ascribe to having their own charge cards will probably be lost. In fact, as the system becomes accepted by the spending public, merchants refusing to honor the universal card and insisting upon the use of their own cards will probably fall into disfavor with their customers.

Fewer "T & E" Grantors. Other credit grantors, such as travel and entertainment credit card organizations, could experience serious declines in membership as the universal card gains acceptance and popularity among hotels, specialty shops, restaurants, oil companies, and airlines. If the businessman can use his universal card wherever he goes, why should he pay a $12 yearly membership charge for a special card which wouldn't be necessary? It is hard to predict what will happen to these travel credit and service companies. It is probable that unless clever new ways of serving members can be introduced, few businessmen in 1985 will see much value in paying $12 for "another credit card."

More Large Grantors. Ancillary credit-granting organizations such as Household Finance, General Electric Credit Corporation, General Motors Acceptance Corporation, and Commercial Credit

Corporation can be expected to take an increasingly active role in the credit world of tomorrow. There are several indications that these credit and loan organizations are developing sophisticated and scientific credit management techniques and are paving the way for eventual participation within an integrated computer credit system. For example, General Electric Credit Corporation has been experimenting with several computerized techniques for credit-scoring. Household Finance is installing a computer network linking 1,000 branch offices across the country with an eventual capacity of handling 150,000 transactions daily. The new system's central information files will contain the credit records of some two million customers.

SOCIAL AND OTHER IMPLICATIONS

The cashless society will bring with it many legal, social, and attitudinal changes that have much more of a dramatic impact than the institutional changes already described.

Ownership of the System. There is, for example, the question of ownership and control over the electronic cash and credit system: Will it be owned by the banks? Who will control it? Many bankers think it should be owned by the banks since they perceive it as a logical extension of their other fiduciary responsibilities.

And what about the credit bureaus, the credit-granting companies, or the retailers? Each sector has a strong vested interest in the way things are being done today. It is unlikely that these groups will sit idly by while the banks or the government take over the system without maintaining their vested interest through at least a partial ownership or control.

Even the computer hardware companies might be lured by the attraction of having ownership and control, especially since they will be so intimately involved in the system's development and operation. The same can be said for the communications companies such as AT&T that will provide and service the data links.

And of course the federal government will inevitably have a strong controlling influence over the system, regardless of who has control at local levels. The possibility of an ownership and control structure like that of COMSAT (Communications Satellite Corporation), with the government as a joint partner, should not be excluded.

Regulation and Administration. Another area of implications for us to consider has to do with the impact of the cashless society on the administrative and regulatory functions of the federal government. A few of the areas where the business of running the country might be affected by the system described are:

- The Treasury Department, in which the office of Comptroller of the Currency has control over Federal Bank regulations. The new system will require revisions and expansions of existing regulations. The Internal Revenue Service, another branch of Treasury, will be concerned for many reasons, including revenue forecasting and taxpayer identification.
- The Federal Reserve System, which will be significantly involved. Federal Reserve float is eliminated from the present check-clearing procedures, and the check-clearing burden itself is eliminated. The structural and organizational changes required in the Federal Reserve System to accommodate such a completely new system are staggering.
- Other government agencies such as the Federal Communications Commission, the Bureau of the Budget, the Post Office Department, and the Department of Labor, which will all be involved in the management of the system or will directly benefit from its use.

Legislation. Certain legal questions pertaining to banking laws, examination and audit requirements, and limitations on credit disclosures come to mind. There are many areas in which existing laws will have to be amplified or amended to accommodate the system's development. There are, for example:

- Restrictions on the percentage of a bank's capitalization which may be invested in electronic data processing equipment;
- Legal restrictions upon the amounts and kinds of credit information which banks, retail merchants, and credit institutions are allowed to furnish about their customers;
- Other legal complications pertaining to antitrust and fair-trade laws which might come to the surface. Questions of ownership and control can be expected to precipitate certain antitrust questions, particularly since there probably will not

be locally competitive systems offering competitive services, but, rather, large, nationally integrated systems. In the area of fair-trade practices, several issues might arise such as equitable rate structures for data transmission, for computer inquiries, and for purchases of peripheral computer services.

Human Acceptance. Of all the complex adjustments which will have to be made before the cashless society can become fully operational, some of the most difficult must occur in the areas of human behavior, attitudes, and work patterns. Unless there are distinctive "gains" involved in the replacement of one habitual pattern of activity with another, individuals and groups will naturally be reluctant to make changes. When other specific sources of resistance such as regional parochialism or fear of direct competition from new types of economic units are combined with a general resistance to change, the process of winning acceptance for the proposed transfer system may be very difficult.

Consider the problems of finding, training, and maintaining qualified people to operate the system. There are already serious shortages of critical-skill workers in computer-oriented occupations such as systems analysts, programmers, and even keypunch operators. There is also the difficult task of updating management's skills in computer usage. The system will never get off the ground until those managers responsible for making the required investments are also capable of understanding and using the system effectively.

People's present transaction habits may also inhibit a rapid acceptance of the system. For example: some people really like having their canceled checks returned to them and wouldn't feel as happy about the whole thing if all they received was one computerized "where-got, where-gone" statement at the end of the month. Other people enjoy stretching their personal liquidity to the extreme and try to live a little on Federal Reserve float during the last couple of days before pay day. This current privilege, which is caused by inefficiencies inherent in the present check-clearing procedure, would be sacrificed.

People would have to learn that the use of money costs something; the new system would probably reward cash transfers at the time of sale with a slight discount and would penalize extended payments with credit fees.

Another area of general resistance will be among the managers of smaller banks, retail stores, and credit bureaus who fear that installation of the electronic system might cost them their identity. These fears are not entirely unjustified, but in general the little participant has as much or more to gain from the system as does the large one. For the price of an on-site terminal device and a telephone line, the small country bank, the small general store, and the small community credit bureau can have access to all the informational and systems resources of the largest of the on-line participants.

Invasion of Privacy. The last, most serious social problem which the new system raises is that of control, not of the system itself, but of people. Although there are viable, convincing arguments to be made for integrating the functions of banking, retailing, and credit through electronic networks, one of the natural results (and advantages) of doing this will be to consolidate information about individuals, thereby broadening information coverage. But unless proper controls over this potentially huge source of personal information are set up, confusion over the authority to use information will undoubtedly result, and possibilities for unscrupulous use of data might arise.

Even if we assume that the security safeguards in existence now can be kept intact and that improper commercial use of information will be impossible, there still remains the question of possible governmental use of the collected personal data. It is conceivable, for example, that deterministic applications of governmental standards could affect opportunities for individuals to qualify for government or civilian jobs, hold elective or appointive office, or enter advanced publicly owned schools. It is possible, of course, to conjure up an Orwellian world of complete governmental surveillance and control, all made possible by what started out to be an efficient way of transacting business.

However, I do not believe that we need have any fears about the world of 1984 when we consider the automated system. In the first place, the individual's right to privacy has always been of such importance to the makers and interpreters of law that the present restrictions upon usage of personal information will never be relaxed, nor will the system of checks and balances which controls the relative power of interested governmental groups ever change to the extent that one group or agency could dominate control of the system. The other more basic reason is that the information that would be available within the proposed system is exactly the same information that is being collected now. All this information could be gathered (most of it legally) by anyone or any agency today that wanted to do so.

The internal reorganization of banks' files to build central information files, the development of computerized credit files, and the establishment of customer files in retail organizations have not triggered a rash of speculation that Big Brother is upon us. I can foresee, therefore, no reason for believing that the simple connection of these files through on-line data links will do so either.

In conclusion, let me say that whatever the implications electronic systems hold for the future, we can each contribute to the building of an efficient cashless society as we learn more about and work with credit as it is used today.

SOME REFLECTIONS ON AN INTRODUCTORY COURSE IN ECONOMICS AND CONSUMER CREDIT

ROBERT J. LAMPMAN

Today's economists give considerable attention to predicting consumer behavior but little thought to offering guidance to those who would like to be either scientific or artistic in managing their households.

Similarly, the main drift of economics has been away from the study of how the individual business firm might be better managed and toward developing an apparatus for predicting business behavior. The applied and practical matters of guiding choices of individual homemakers and business managers have come to be thought of as falling in the realm of home economics on the one hand and commerce or business administration on the other.

Economists tend to concentrate their advice-giving at a level of systematic relationships among large numbers of households and firms and to talk about broad rules and conditions under which business and consumer choices should be made. An economist now feels easier talking about anti-trust legislation or tariffs than about how a manager ought to price his product. He would rather talk about regulation of consumer markets, e.g., the rise of resale price maintenance legislation, than how a housewife ought to allocate her food budget.

Thus, the economist has, by preference, elected to operate in what appears to be a relatively detached role and has viewed the household either as a subject for impassive study of an objective character or as the beneficiary of policy changes made at the industry or economy wide level. He is likely to say that broad systematic relations among groups or sectors are more interesting to him than are the peculiar problems of a particular sector of the economic scene.

In the area of credit the economist has concentrated his efforts on comprehending how the overall credit system works, how supplies are related to demands, and how the working of that system can be improved by governmental policy. To do this, he needs considerable insight into what the behavioral patterns of both demanders and suppliers of credit are. (On this point he can learn a good deal from the home economist.) His policy aim is to develop a system offering a reasonable range of choices, a range that gives latitude for differing preferences and judgments by individual lenders and borrowers. Consumer credit specialists may go beyond that to study the goals of and likely consequences of choices by individual borrowers and to indicate a desirable pattern of behavior.

Economists and home economists, then, tend to operate at different levels of generality, but they often are concerned with the same subject matter. I suggest that, to the extent that they both do good jobs, they will teach many of the same things. The home economist, by starting from the specific case, can lead the student or counselee to a broader understanding of the credit system. The economist, by starting from the generalized system of credit, can help the individual, in his role as citizen, pursue the public interest, and, in his role as consumer and producer, pursue his private interest as it applies to consumer credit.

Economists hope that their discipline is not an esoteric study useful only to a few professionals, but that it offers something useful to all.

THE INTRODUCTORY COURSE IN ECONOMICS

In an introductory course in economics we professors present a considerable amount of historical and descriptive material. This requires describing the leading institutions in the American economy, including the banking system. However, we seldom devote much time to specific problems such as how the consumer handles credit.

What, then, is the introductory economics course about? The unique thing an elementary course offers is a special way of thinking, a distinctive way of defining and approaching issues, a way that can be applied to personal as well as to business and public affairs. It is a way of thinking that is two-sided, double-edged, and counterbalanced.

Let me suggest what meaning this way of thinking has for consumer credit by reference to a set of key concepts.

A credit transaction is a two-sided affair involving both *demand and supply.* It is important to see that the demander can benefit from rivalry on the supply side and suffer from rivalry on the demand side. In this sense a competitive market for credit is quite unlike a football game between two teams. The goal is not victory but agreement. The transaction is double-edged in the sense that the person who is a demander today may be a seller tomorrow, or even simultaneously. It is counter-balancing in the sense that a third party may be influenced to take an action by a transaction not involving him directly. Thus, if a great many people suddenly enter the supply side of the credit market, it may be associated with a fall-off in demand for some consumer goods and hence reduce a manufacturer's demand for credit.

The simplest kind of observation we can make here is that students need to be encouraged to see that credit, namely the use of money for a specified period of time, is a service specifiable in terms of price and quantity and that its price is determined by supply and demand within a particular market. Beyond that we can point out that the price of credit is not always easy to calculate and may include things other than a money payment.

Another key concept somewhat like the demand-supply formulation is that of *benefit-cost analysis,* which is central to the economist's approach to life. Here the idea is to specify the goal or benefit one wants to achieve, array the several possible methods of achieving the goal, and finally to select the least costly method. For example, the goal might be to live, starting this year, in housing of a certain quality. The alternatives are to rent or to borrow money and buy a home.

As one begins to ponder the goal, the double-edge appears. The "cost" of reaching the goal is to forego the alternative method and alternative goals. This is what economists call the opportunity cost. We can work toward a happy solution if we include other goals in the problem and seek to equalize the benefit from the last dollar we expend in pursuit of each goal.

The observation to make here is that in making choices there is usually no cost-free solution. Merely by taking time to enjoy one thing we forego an opportunity to do something else. By enjoying something today, via borrowing, we forego the chance to have a greater quantity of it tomorrow. In a credit transaction there is a two-sided exchange of sacrifice tomorrow for pleasure today and vice versa.

(Economists try to impress on their new students that everything has a cost. This is a splendid notion not taught in history, English, etc. What a student learns in economics is "You can't always get there from here.")

Another key pair of concepts is that of *income and expenditure.* A person determines his income, to a certain extent, by his expenditure. His welfare may be improved either by an increase in income or by better allocation of expenditures. At some point both may come simultaneously. The really poor person faces what Wesley Clair Mitchell called "the high cost of being poor;" that is, a poor man is always in crisis because he has few choices open to him. Counterbalancing effects of income and expenditure are indicated by the two following statements: One person's income is determined by another's expenditure. The validity of one group's effort to save is determined by another's willingness to borrow.

To illustrate, the effect of a government deficit is counterbalanced by a net surplus in the household and business sectors. Some of these income-expenditure relationships are shown in Table 1. (*1*)

TABLE 1. Gross National Product and Relation of Disposable Personal Income and Personal Saving, 1966

(in billions of dollars)

Gross national product		743
Disposable personal income		509
Less: Personal consumption expenditures		466
Consumer interest payments	12	43
Personal transfer payments to foreigners	1	
Equals: Personal saving	30	

Total expenditure by all parties was $743 billion, which, after deductions for capital consumption, certain taxes, and undistributed corporate profits, yielded disposable personal income of $509 billion. Out of this income and with the use of borrowed funds, persons consumed $466 billion worth of goods and services. Income less consumption, some of which was financed by borrowing, equaled saving of $30 billion. Incidentally, we note that the $12 billion of consumer credit interest looms pretty big alongside the $30 billion savings figure.

Flow-of-funds estimates are that households in 1966 did gross saving (here defined to include capital consumption) of $114 billion and did gross investment in consumer durables of $70 billion and in housing of $23 billion. Households thus had a $21 billion surplus of saving over investment. These savings were used to buy claims on businesses, including financial institutions, of $19 billion and on governments in the amount of $2 billion(*2*). These claims are net of increased obligations to pay for consumer durables and housing. The body of consumers, which always grows in numbers and usually in income and never dies, is always supplying savings to the deficit sectors. (*3*)

It is interesting to note that there is usually a counterbalancing effect between business and government. If the business deficit gets smaller, the government deficit gets larger. That relationship was not at work in 1967, however.

Discussion of saving and investment brings us naturally enough to the key concept of *assets and liabilities* and change in balance sheets. The household sector's balance sheet as shown in Table 2 reflects a $15 billion increase in debt owed, but also a much greater increase in the net worth of the sector. This helps to place household debt in perspective. (*4*)

TABLE 2. Change of Balance Sheet, Household Sector, 1965-1966*
(in billions of dollars)

CHANGE OF ASSETS		CHANGE OF LIABILITIES	
Consumer durables	70	Consumer credit	5
Fixed investment	23	Mortgage credit	10
Gross claims on business and government sectors	36	Net worth	114
TOTAL	129	TOTAL	129

* Note: No adjustment is made for depreciation or other change in value of assets.

We get a still better view of consumer debt in Table 3, which presents some very rough estimates of the balance sheet of the household sector in 1967(*5*). The total debt owed by the household sector is $332 billion, which is only 15 percent as large as the net worth of the household sector. (The latter, which amounts to about $2 trillion, is equal to the net worth of the national economy less the amount by which the net worth of the government sector exceeds the debt of that sector.) It is notable that consumers as a group are the nation's largest lenders and show a strong net creditor position. They own about 35 percent of all debt and owe only 15 percent of total debt issued by all sectors.

TABLE 3. Balance Sheet, Household Sector, 1967
(in trillions of dollars)

ASSETS			LIABILITIES	
Tangibles		1.000	Consumer credit	0.095
Intangibles		1.300	Mortgage credit	0.227
Debts of other sectors	0.700			
Equities of business	0.600		Net worth	1.978
TOTAL		2.300	TOTAL	2.300

The balance sheet suggests other counterbalancing considerations that are significant parts of the thinking of economics. For instance, what is one man's liability is another's asset. When households run a surplus and other sectors run deficits, growth of debt will accompany growth of net worth.

Easy judgments about the health of the economy are not warranted by looking at only part of the balance sheet of one sector. Indeed, one needs to relate debt to assets and then to relate assets, in turn, to the capacity of the nation to produce and thereby contribute to consumer well-being. Furthermore, one should relate the debt of individual consumers, as distinct from the entire household sector we have been talking about, to their assets, income, and capacity to pay. This brings us back to the consumer credit specialist and the home economist.

SUMMARY AND CONCLUSIONS

Economics teaching can communicate a systematic pattern of two-sided, double-edged, counterbalanced thinking. This pattern is illustrated by such concepts as demand-supply, benefit-cost, income-expenditure, saving-investment, and assets-liabilities. To the extent that a student incorporates this pattern in thinking about his work, his consumption, and his citizenship, he gains something of value.

Of course we shouldn't conclude that this is the only pattern of value. In the original Greek definition of economics, managing a household was either a science *or* an art. Perhaps the management of the household, and other things as well, is a matter of science *and* art, and any attempt to tie decision-making too closely to careful calculation of benefits and costs and balance sheets will be self-defeating. We are not all alike, and, fortunately, a changing society has need for many different types of people. Some people will be careful economizers, and some will be willing to try quite different approaches, without regard to cost. This is one of the distinctions between people who are prudent and people who are romantic. While life would be dull without some non-economizing, it would be chaos with only that.

The work of those of us who teach the introductory course in economics is closely related to that of consumer credit specialists. There is certainly plenty for all to do. By working together as generalists and specialists, we can help to make life more interesting and worthwhile for others.

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4. *Federal Reserve Bulletin, op. cit.*, p. 1644.
5. This table is an updating, by the roughest of methods, of balance sheets for earlier years in my book *Top Wealth Holders' Share of National Wealth*, Princeton University Press, for the National Bureau of Economic Research. 1962.

CONSUMER CREDIT AND THE LAW

BARBARA A. CURRAN

In the absence of any special exceptions, the laws governing consumer credit transactions, such as small loans and retail installment sales contracts, are the same as those applicable to credit transactions generally. Laws regulating the credit dealings between a commercial buyer and a commercial seller assume an equality of bargaining power between the buyer and seller, an equivalent competency to bargain, and an opportunity for each party to make alternative arrangements. These factors are not usually present in the same degree in a credit transaction involving a consumer and a commercial extender of credit.

Regulations governing commercial credit transactions cannot appropriately be applied to consumer credit transactions. For example, the maximum interest permitted under many general interest and usury statutes is insufficient to provide an adequate return on a small consumer loan that is repayable in monthly installments. Consequently, statutes have been enacted in most states specially regulating consumer credit transactions, and thereby removing them from the application of laws regulating commercial credit transactions.

In general, consumer groups, representatives of the credit industry, and academicians agree that the need for, and the purpose of, consumer credit regulation should be evaluated separately from commercial credit transactions. The problem lies not in acknowledging the propriety of differential treatment of consumer credit and commercial credit, but in determining in what respects consumer credit should be treated differently from commercial credit.

The purpose of this paper is (1) to discuss how consumer credit transactions are currently being regulated, (2) to examine the effectiveness of that regulation, and (3) to suggest what we may expect by way of developments in consumer credit transactions in the near future.

I. CURRENT REGULATION OF CREDIT TRANSACTIONS

Consumer credit transactions, as I use the term here, include a wide variety of arrangements under which credit is extended to consumers. Small loans repayable on an installment basis, whether made by banks, credit unions, savings and loan associations, small loan companies, or consumer finance companies, are included within the meaning of the term.

In addition, the term encompasses credit extended by a seller in connection with the sale of goods such as automobiles, appliances, furniture, jewelry, and other personal property, and also credit extended by a person performing services such as a home improvement contractor, a doctor, or a dentist. For the purpose of this discussion, consumer credit transactions will not include loans secured by real property, such as, for example, home mortgage loans.

Consumer credit transactions such as those just mentioned are regulated by statute, and each separate state regulates all transactions occurring within its boundaries. Statutes understandably vary from state to state. However, differences in regulation from one state to another tend to be primarily in the degree rather than in the character of the regulation. For example, credit contracts for the sale of automobiles are regulated in most states. However, not all states regulating the credit sale of automobiles establish a ceiling on the amount of finance charges. The more significant differences are found in regulation of different classes of credit transactions occurring within the same jurisdiction. This latter difference will be discussed further in the next section of this paper.

The basic premise on which all consumer credit legislation is based is that a consumer credit arrangement is the subject of a private exchange between two parties. As such, a presumption exists in favor of permitting the parties to the exchange to bargain for and agree upon whatever terms they find mutually satisfactory.

In general, it is assumed that parties to a credit transaction know what they are doing and that, if the exchange is acceptable to each of the parties to the bargain, it is immaterial, as far as the law is concerned, that a third person might think that one party to the exchange has made an imprudent bargain. Under this view, statutory restrictions are not imposed on arrangements unless it appears necessary because factors other than usual differences between parties to a bargain are materially affecting the process of exchange.

Existing regulation of consumer credit transactions is aimed at what is a primary problem in the consumer credit exchange, namely, that the commercial creditor possesses a bargaining advantage over the consumer in most cases. This advantage, which invariably permits the creditor to dictate most of the terms of the credit arrangement, is created not only by the creditor's greater economic resources, but also by his experience with and knowledge of consumer credit matters.

In addition, the creditor's position is enhanced by the fact that acceptance or rejection of a particular credit extension is not as significant for the creditor who has a volume of credit business as for the individual consumer applying for credit extension. In most credit negotiations between consumer and creditor, the consumer's choices are limited to questions of the total amount of credit that he can obtain, the amount of each installment payment that he is to make, and the date on which payments are to begin. This is partly due to restrictions imposed on the consumer's choice by the creditor but also can be attributed to the fact that these are the only matters that the consumer is interested in pursuing with the creditor. Other terms of the arrangement are generally left to the creditor's decision. Much consumer credit legislation on the books today is intended to eliminate, or at least mollify the impact of, the more flagrant abuses of consumers made possible by unscrupulous creditors who use inequality of bargaining power to exploit an unfair advantage.

Consumer Credit Statutes. Consumer credit is regulated by statute in four basic ways:

1. Some potential creditors are excluded from extending certain types of credit. For example, only licensed and supervised lenders may make loans under small loan laws. The theory is that borrowers will be more fully protected from unscrupulous lenders if lending is limited to a small group of licensees who operate under the close supervision of a state administrative agency. Obtaining a license requires showing that it is in the best interests of the community that a particular lender be able to make loans under the small loan law.
2. The creditor is often required to disclose certain information about the credit obligation to the consumer at the time that negotiations are taking place, or at least in the contract that the consumer signs. For example, in most states the creditor must state the specific amount of finance charges at the time that the consumer becomes obligated under the contract.
3. Restrictions may be imposed by statute on the provisions that the creditor may include in the contract. The creditor prepares the formal contractual document that is presented to the consumer for his signature and includes provisions that will place him (the creditor) in the best possible position to enforce and protect his interests under the contract. Statutory restrictions on contractual provisions are intended to establish some limitations on the ability of the creditor to shape the contract in his favor where the corresponding detriment to the consumer is or may be substantial. For example, a provision permitting the creditor to declare the full debt due at any time, even though the consumer has not defaulted in payments, is prohibited.

Another provision often prohibited in sales contracts is one by which the consumer agrees not to assert against the seller, or the person to whom the seller transfers the credit contract, any claims he may have against the seller arising out of the original sales transaction. In addition to prohibiting certain provisions, statutes may specify a range within which the creditor may act. For example, statutes regulating rates of finance charge permit the creditor to make any charge he wants as long as it does not exceed the maximum specified in the statute.

4. Statutes may restrict the legal remedies by which creditors may enforce their rights against consumers or may limit the defenses which they

may have to claims asserted by consumers. For example, if a seller transfers a retail installment sales contract to a sales finance company, the consumer, after he receives notice of the transfer, must make his installment payments to the sales finance company instead of to the original seller. If the sales finance company qualifies as a holder in due course, the consumer cannot assert any claims he has against the seller, such as a television set breaking down, against the sales finance company. This means that the consumer has to continue to make payments to the sales finance company even though he cannot get the seller to fix the television set. The only remedy the consumer has is to pursue the original seller and not his transferee. In such a case, statutes in some states permit a consumer, under certain circumstances, to assert a claim against the sales finance company.

An example of a creditor's remedy arising out of a sales contract is the deficiency judgment. If a creditor repossesses an automobile for nonpayment and then sells it, and if the amount he recovers on the sale is not sufficient to cover the amount of the debt owed at the time of the repossession, the creditor may then go to the court and obtain a judgment against the consumer for the amount still owed. This is known as a deficiency judgment. In most states, the creditor may then garnish the debtor's wages for the amount of the deficiency (that is, obtain a court order instructing the debtor's employer to turn over a certain percentage of the debtor's wages to the creditor until the deficiency is paid).

In recent years, although there has been a great deal of discussion about eliminating the deficiency judgment, there has been very little action. If the deficiency judgment were eliminated, then the creditor repossessing an automobile must accept the car in full satisfaction of the debt and cannot thereafter proceed against the debtor in a court action for a deficiency judgment. In California, the deficiency judgment has been eliminated in the case of retail installment sales contracts for the purchase of goods other than automobiles.

II. IMPACT OF CURRENT REGULATION

It would seem that the aforementioned provisions would insure a fair and decent exchange between the creditor and the consumer in spite of differentials in bargaining power. The fact of the matter is that existing legislation does not do this. The regulations are not applied, across the board, to all types of consumer credit arrangements. Statutes within each state vary for different classes of arrangements even though, from the point of view of the consumer, those arrangements are functionally the same. As a result, the value that could be achieved from a systematic application of similar legislative controls to all consumer credit arrangements is lost.

In addition, regulation of specific arrangements is often inadequate. Statutory provisions regulating one aspect of any arrangement, without supplementary provisions relating to other aspects of the same arrangement, are of limited usefulness. For example, some sales credit statutes require the creditor to disclose certain information to the consumer prior to consummation of the contract. Such a provision is of dubious value by itself. Disclosure provisions merely provide the consumer with information about some contract terms. There is no reason to believe that this information, in and of itself, is going to increase the consumer's power to change or otherwise negotiate about contract terms other than those which are customarily treated as the subject of negotiation. A statutory disclosure requirement should be accompanied by regulation of contract provisions relating to matters that are not the subject of consumer-creditor negotiation.

We can gain a better insight into the impact of consumer credit laws by looking at the way in which those laws have evolved.

The first legislation affecting consumer credit was in the nature of small loan laws, based on the Uniform Small Loan Law sponsored by the Russell Sage Foundation in the second decade of the twentieth century. The purpose of the Uniform Act was to encourage legitimate lenders to make small loans to wage earners by increasing the amount of interest that such lenders could charge. At the same time, the legitimacy of operation was to be controlled by prohibiting any lender who did not hold a license under the small loan law from making such loans and providing for extensive state supervision of the activities of the licensed lenders. The objective of the law was to substitute legitimate lending for that of the unscrupulous loan shark who, up until that time, had been the only available source of credit for the wage earner.

The small loan laws relaxed the stringent requirements of what was essentially a price-fixing statute for creditors participating in the consumer loan market. However, only a limited number of lenders were permitted to take advantage of the new higher rates authorized. In effect, these laws initiated what has become characteristic of the consumer loan market, namely, the stratification of competition. By permitting only certain lenders to charge the high rates authorized by the small loan law, legislatures restricted competition in that segment of the market.

Between the time of the enactment of the first small loan laws and the 1950's, major legislation relating to consumer credit transactions dealt with the maximum interest permitted for installment loans to consumers. As banks and other financial institutions became increasingly interested in participating in the consumer loan market, restrictions of general interest and usury statutes which permitted a return insufficient for small installment loans became onerous.

Primarily because of pressure from lenders who wanted to participate in the consumer loan market, consumer loan legislation was passed during this period. The legislation dealt primarily with regulation of maximum interest and permitted various classes of lenders to charge rates higher than those authorized by the general interest and usury statutes for small installment loans. Such legislation broadened the market for consumer loans by permitting a greater variety of lenders to engage in this type of lending.

To the extent that greater participation of financial institutions resulted in greater competition for consumers' business, the legislation could have meant lower costs for the consumer. The problem was that maximum interest controls were not usually relaxed simply by permitting new classes of lenders to charge the higher rates authorized under the small loan laws. Instead, controls were relaxed for each new class of lender by authorizing a special rate for that new class. Thus, stratification of competition was perpetuated in the consumer loan market, and general competition was inhibited by the statutes.

Retail Installment Sales Credit. Retail installment sales credit has never been subject to the restrictions of interest and usury statutes—it is not considered a loan of money. The seller is merely charging a different price for goods for which he receives payment immediately than he would if he were to receive payment at some future time. Historically creditors extending sales credit were subject to no special restrictions on their credit arrangements, nor were there any restrictions on participation in the market.

Retail installment sales credit contracts were virtually unregulated until after World War II. In the case of consumer loans, the pressure for legislation came from those potential lenders who were excluded from participating in the consumer loan market by the licensing provisions of small loan laws and by the low maximums authorized under the interest and usury statutes. If there was any resistance to new consumer loan legislation, it probably came from lenders already in the market who might have feared the effects on their business of additional competition. In any event, the situation in the case of retail installment sales credit was quite different. Since anyone could engage in extension of sales credit and since there were no restrictions on contractual provisions or on the amount of finance charges authorized, there was no pressure from any segment of the industry for legislation of any type.

It was only after abuses became notorious and pressure was exerted by consumers, consumer groups, and those members of the industry who recognized that the vitality and health of the market were threatened that legislation regulating retail installment sales credit arrangements was enacted.

The vast bulk of retail installment sales legislation has been enacted within the last 10 years. Primary emphasis in such legislation is on disclosure. In any statute regulating retail installment sales credit arrangements, there is always a provision requiring the seller to include certain information in the contract itself.

With regard to information disclosed, emphasis has been placed on informing the consumer of the amount that he is paying for credit as well as for other charges. Presumably, the theory is that if the consumer knows he is entering a retail installment sales obligation and is aware of the terms of that arrangement, particularly with regard to cost, then he will then be able to make an intelligent appraisal and decision to undertake a particular obligation with a particular creditor. In addition, after he has signed the contract, he will have a document that clearly spells out the nature of the liability he has incurred including his rights and duties. He will know what his rights as well as his obligations are under the contract. How effective such disclosure requirements are in achieving either of the above objectives, let alone both, is questionable.

In the first place, the contract is usually so long and complex that the consumer probably will not read it, and even if he does, he probably will not understand a large part of it. One solution to this dilemma has been to require that certain provisions be spelled out in the contract in bold face type or capital letters to make sure that the consumer sees them. Of course, the question of which provisions should be so emphasized is a difficult one. In one sense, all contractual provisions are important to the consumer because they affect his rights and duties. Moreover, some information, such as the cost of credit, may be important to the consumer prior to the time he undertakes the obligation, whereas other information, such as acts which must be performed to preserve rights under the contract, may be more important thereafter.

Viewing the contract as an instrument for disclosing information to the consumer before he becomes obligated also presents problems. The consumer generally thinks of the arrangement as pretty well settled by the time that the seller hands him the contract to sign. It is unlikely that he is going to take the time to read the document over carefully before he signs it, particularly under the pressures surrounding the closing of a sale.

One way of dealing with this problem is the approach used in Massachusetts. Under a recently enacted statute applying only to door-to-door retail installment credit sales, the consumer is permitted to cancel out the arrangement by proper notice to the seller's office within an approximate 24-hour period after the time he signs the contract. Various legends in the contract inform the consumer of the right to cancel, and presumably the consumer who is interested can read over the document and reflect about the obligation he has incurred after the pressure of the salesman's presence is removed. This kind of statutory provision does not, of course, solve the problem for those consumers who because of special disabilities such as language difficulties or lack of education cannot understand the terms of the arrangement they have entered into.

Regulation of Rates. Regulation of rates under retail installment sales acts has, of course, been resisted by creditors who traditionally have not been subject to interest and usury laws. Nevertheless, many automobile retail installment sales acts do establish maximum finance charges for the credit sale of cars. A number of statutes regulating retail installment sales of other goods also have such limitations. However, the resistance of some members of the credit industry to rate limits is not entirely without reason. One must recognize that the seller can always adjust the basic cash price of the article sold. Therefore, regulation of sales finance charges is more complex than regulation of interest rates for loans since in the latter case the basic dollar value of credit extended is readily ascertainable.

Statutory provisions relating to other provisions in the contract besides the amount of the finance charge are generally related to provisions by which the creditor enhances his own remedies or restricts remedies that the consumer would otherwise have had under the contract. Generally speaking, however, in most states prohibitions or restrictions relating to contractual provisions are modest in substance and scope.

One practical problem that consumers often face is how to enforce or pursue their own rights under the contract. In many cases, the issue resolves itself into an economic one of balancing the cost of pursuing the claim against the amount to be realized by pursuing the claim. For example, it may not be economically prudent to pursue a $100 claim against a creditor through the courts when the cost of doing so may far exceed the $100.

Until recently very little attention has been paid to helping the consumer recognize when he has a meritorious claim and then facilitating his ability to pursue that claim. Suggestions have been made that the state agencies could assume the responsibility of hearing consumer complaints and pursuing those complaints on behalf of the consumer. In addition, such agencies could be charged with general educational responsibilities. Some limited advances have been made in this direction, such as the Consumer Fraud Bureau of the State's Attorney's Office in Illinois.

III. NEW DEVELOPMENTS

Consumer credit legislation now on the books represents the aggregation of discrete statutes enacted over a 50-year period. In each case, the enactment of legislation was a response to a specific problem, whether it was broadening participation of creditors in the market or controlling creditors who engaged in unconscionable activities.

The many existing statutes are not integrated with each other. Consumer credit arrangements are classified for purposes of regulation along lines that relate to whether the credit extended arises out of a sale or out of a loan and, in addition, in the case of loans, what kind of credit institution is involved. Retail installment sales credit and loan credit are regulated under separate statutes. Consumer loans are regulated under a variety of statutes, each one applicable to a different kind of credit institution. For example, credit union loans are regulated under one statute, loans by small loan lenders under another. Loans by banks are regulated under still a third type of statute. If there are problems with existing legislation and if that legislation is not adequate to meet the need, it is generally because the regulation of consumer credit has traditionally been viewed as the regulation of specific kinds of arrangements, and not as the regulation of the market as a whole.

There now exists a climate for change and this can be seen in several ways. First, the activity in the Senate Subcommittee on Banking and Credit, culminating in a passage of S.5 (the Proxmire Truth-in-Lending Act) is significant not only because of the provisions of the statute itself but because the Act, and particularly the hearings preceding it, have given new national exposure to consumer credit problems and legislation affecting those problems.

Second, a major effort is being made by the National Conference of Commissioners on Uniform State Laws to create a Uniform Consumer Credit Code. The Uniform Code, still in draft stage, could be a very major change and, ultimately, an improvement in laws currently on the books. The Uniform Law, unlike the Truth-in-Lending Act, which is a federal act, would have to be passed by each individual state. The significance of the Commissioners' Code lies in the fact that the entire subject of consumer credit is dealt with in an integrated and systematic manner in one act.

Finally, the increase in consumer credit activity in the state legislatures since the latter part of the 1950's is significant. Each year consumer credit bills are introduced in state legislatures, and some legislation is passed. The fact that this legislation often results in accretions to existing laws that, in some cases, are of dubious value is not what is important. What is important is that legislators are becoming increasingly aware of the fact that existing credit legislation is not what it should be. There are, of course, other indicators of the climate of change, not the least of which are national conferences in which the whole matter of consumer credit is examined.

There is no question about the general dissatisfaction with the laws governing consumer credit transactions and the parties who participate in those transactions. Dissatisfaction is expressed not only by consumer groups but also by members of the credit industry and of administrative agencies charged with implementing and supervising consumer credit laws. If there is agreement, it is on the fact that existing laws are unsatisfactory. However, there is little agreement on the manner in which those laws should be revised. And this disagreement is not just between groups, but also among persons within those groups.

However, the crucial question is what the consumer credit market should be. It is not only the technicians and specialists in the field who should address themselves to this issue. In the long run, the laws, when applied, will attempt to shape and mold the nature of the consumer credit market and consequently consumer credit transactions. The question really is: In what kind of marketplace, under what kinds of conditions, and with what kinds of consequences are consumer credit arrangements to be created? The question of how laws can be used to implement and promote this kind of marketplace is only secondary. At best, laws are only an aid to achieving specified objectives—the objectives will not emerge from the laws. We can learn from the past as we look ahead to developments in consumer credit legislation.

THE IMPORTANCE OF CREDIT IN OUR COMPETITIVE ECONOMY AND THE ROLE OF THE FEDERAL TRADE COMMISSION

MARY GARDINER JONES

Ours is a debt economy. During the last decade, the federal government's debt has virtually doubled. State and local government debt trebled in the same period. Corporate debt has also increased by somewhat over half, but consumer debt has increased by far the largest percentage. Eliminating home mortgages, consumer debt incurred for such things as automobile loans, consumer goods, repair and home improvement loans, charge accounts, and revolving funds almost trebled in this period.(*1*)

This substantial increase in consumer credit can be attributed to several major factors. In the first place, the extension of credit has become an important factor in the growth of our economy. Retailers have discovered that the extension of credit to consumers can, by itself, be a profitable source of revenue as well as a potent competitive weapon by which to expand sales and market shares. For instance, retailers can borrow from banks at rates of approximately 6 percent and can lend to customers at interest rates ranging around 18 percent. While this threefold markup is not all net income, it illustrates the profit potential available to some companies. Thus the extension of credit plays an important role in the competitive process not only among loan and finance companies but as a tool for the sale of merchandise.(*2*)

In the second place, the consumer's attitude toward credit has changed substantially, and the incurring of individual debt has achieved for many consumers a relatively new respectability(*3*). To this must be added the situation of low-income consumers, encompassing about 20 percent of our population, for whom credit is the only means of satisfying even their most basic wants.

Finally, the enhanced personal financial security which most of us enjoy today, as a result of high employment levels together with the development of social security and unemployment and health and pension programs, has reduced the individual's need or incentive for savings. Thus more of the consumer's disposable income is available to satisfy his immediate wants and desires. Although this income is probably not sufficient for cash purchases, it is sufficient to cover increased interest and carrying payments.

Prior to this post-war about-face, the individual's borrowing habits had been strongly curtailed and kept in check by the Protestant ethic, which tended to make excessive individual debt immoral. It is imperative that we recognize that the old "conditioned borrower," the buyer who was conditioned by the Protestant ethic not to incur excessive debt, has now been replaced by a new borrower, conditioned in reverse to desire consumer credit. Yet at the same time with the disappearance of the Protestant ethic as a basic societal device to impose controls (albeit negative) on the use of credit, society faces the imperative of developing other techniques to ensure that the use of credit by consumers is at least rational and informed.

CONSUMER DEBT AND THE NATIONAL ECONOMY

Consumer credit is an important factor in our overall national policies directed toward the achievement of our full employment goals. However, the level and rate of individual consumer credit is not as readily or quickly responsive to manipulation of various financial and monetary controls as other forms of corporate or governmental debt. Hence the volume of consumer debt can, under some circumstances, present potential difficulties for the managers of our economy.

Excessive consumer credit can be a potential contributor to economic instability and can complicate the task of stemming a downward spiral of the economy, or even of stabilizing or promoting the growth of our economy. While consumer credit can stimulate the economy, it can also render more difficult the national goal of achieving full employment. Thus as consumer credit achieves a significant relationship to gross national product—which it has today—any slowing up or decline in gross national product can be reinforced by the existing high volume of consumer credit. Since over 75 percent of consumer credit has a duration of more than a year, any decline in gross national product cannot be met by an immediate response in reducing consumer credit; hence, outstanding consumer credit will bite deeper into the amount of disposable income retained by a family and will tend to enhance any slowing down of the economy. It becomes doubly important, therefore, that consumer credit at any one time has been rationally incurred and that an excessive portion of the income of individual consumers is not too rigidly committed to debt repayment.

For the low-income consumer with no choice as to whether to purchase on cash or on credit, full information about the cost of credit to him is essential to enable him to select that credit source which is for him the "best buy." The medium-income consumer needs adequate credit information not only to select the best credit source. It is also needed to enable the consumer to determine the cost to him of making the purchase on credit, and thus to make a rational decision about whether or not to consummate the transaction on a cash or credit basis. As President Johnson stated so succinctly in his message to Congress in February of 1967, "As a matter of fair play to the consumer, the cost of credit should be disclosed fully, simply, and clearly."

The increasing role which consumer credit plays in our economy creates another problem, namely the need to make certain that consumers are not deceived or defrauded in their credit transactions. Today, both middle- and lower-income-level groups are increasingly making use of credit in connection with relatively small size dollar-wise transactions. Yet if they find themselves defrauded, deceived, or otherwise victimized in the course of these transactions, the low dollar amounts involved hardly warrant or indeed justify the vindication of their rights at law. The amount of lawyers' fees and litigation expenses would in most instances far exceed the face amount of the debt.

To this must be added the realistic inability of the lower-income groups even to consider going to the courts for recourse and, more important, to risk taking any measures of self-help, such as refusing to pay for the allegedly defective or otherwise unsatisfactory goods. No low-income consumer could afford to defend the lawsuit which would inevitably follow upon his refusal to pay, and indeed his refusal to pay might be used in support of a garnishment action which might well result in his losing his job.

The essential need today, therefore, is for the development of adequate regulations to protect consumers against fraud and deception in the field of credit transactions and to ensure that consumers have sufficient information about the cost to them of credit to enable them to function rationally in the marketplace.

In light of the state of today's credit market, there is little the consumer can do to educate himself either as to the absolute cost of credit to him or as to the relative cost of various credit alternatives open to him. Thus, while education is frequently an effective, and indeed in many instances a preferable alternative to government regulation of business practices, this alternative is not really available today with respect to credit transactions. The basic need is for clarification and disclosure of the actual terms of credit being offered; and until this is available, consumer education on the rational use of credit is fruitless(*4*). By the same token it is equally essential that if fraud and deception in the field of credit transactions are to be successfully attacked, the consumer cannot be expected to assume this burden alone. A rigorous government program designed to eliminate these practices must be mounted so that the honest retailer and loan company can compete in the field of credit and the consumer can have access to a sufficient number of credit sources without fear of being defrauded.

ROLE OF THE FEDERAL TRADE COMMISSION

Let us now consider the role of the Federal Trade Commission in the field of credit regulation. In general the Commission's efforts in the past have been directed primarily toward the elimination of deceptive practices in the credit collection industry and only secondarily toward the elimination of deceptions and the encouragement of more complete disclosure of information in transactions involving actual extensions of credit.

The Commission's early efforts in the credit collection area, going back to the early 1950's and before, were directed toward a variety of deceptive practices engaged in both by creditors and by companies specializing in the preparation and sale of debt collection forms to creditors or in the collection of debts and location of absent debtors on behalf of creditors. The primary deceptions involved misrepresentations to the debtor that legal action had already been instituted on the debt, that the debt had been referred to governmental authorities, that the debtor's credit would be ruined, or that the debt had been transferred to an independent holder in due course, thereby rendering ineffective any defenses the debtor might have had against the original creditor.(*5*)

The importance to the consumer of Commission action against these deceptions is increasing with the growing use of credit by lower-income groups. These groups are the most likely to be intimidated by threats of legal or governmental action and are most helpless to take any self-help measures or to invoke the usual remedies available to persons who are unfairly accused of owing money or who may have legitimate set off claims against the money owed.

While in the past the Commission has sought to eliminate these deceptions on a case-by-case basis, in 1965 the Commission promulgated its *Guides Against Deceptive Debt Collection* with a view to attacking the problem on a broader basis. These guides summarize the various debt collection practices regarded by the Commission as deceptive. However, the case-by-case attack against the endless variety of collection devices used by creditors and collection agencies will undoubtedly continue as long as creditors and collection agencies continue to seek to collect payment of alleged debts by deception and coercion.

More recently the Commission has also been concerned with deceptions practiced in the new and growing field of debt consolidation or debt pooling. In some instances, the Commission placed its investigations on suspense pending disposition of mail fraud charges against the same companies by the Post Office Department. One of its investigations was disposed of by a consent order in which the respondent agreed not to represent that it would consolidate debts of its clients, furnish financial assistance, or arrange for such assistance in the payment of such debts(*6*). It was further agreed not to represent that their clients would be assured that their creditors would delay or forbear from suit.

The misrepresentation of interest rates was attacked by the Commission as a violation of Section 5 of the Federal Trade Commission Act as early as 1936. In that year the Commission filed a series of complaints against the major automotive companies charging that their so-called 6 percent financing plans were being deceptively advertised(*7*). The Commission alleged, and was sustained by the courts, that a representation to the public that financing for automotive purchases at a 6 percent interest rate could be obtained was a representation that a 6 percent simple interest per annum was being charged and that this representation was false since in fact the actual interest rate being charged was 1½ percent monthly, thus constituting an annual interest rate of between 11 and 12 percent.

The Commission's concern with misrepresentation of interest rates in the field of automotive financing was activated again in 1950 at which time it held hearings on the subject. The Commission followed these hearings in 1951 with the promulgation of trade practice conference rules on the retail installment sale and financing of motor vehicles(*8*). These rules required separate itemization and disclosure of the following costs: (1) delivered price and amounts credited as trade-in or down payments; (2) time balance owed plus amount and due date of each installment; (3) cost of insurance, if any; (4) finance charge; (5) all other charges.

They also prohibited the execution of contracts signed in blank and any misrepresentations with respect to the financing charges required by outside financing institutions, such as the coverage of insurance, the finance rates being charged, and the like.(*9*)

The Commission's action was accompanied by a wave of state laws enacted to regulate these same practices. In order to avoid overlapping jurisdiction, the Commission announced that its trade practice rules applied only to interstate transactions and that it would not take action even in these instances if the State also having jurisdiction over the transaction had an adequate disclosure law.(*10*)

RETAIL INSTALLMENT TRANSACTIONS

Over the years, the Commission has brought a few cases attacking alleged misrepresentations involving financing charges to be made or financing terms available(*11*). However, it was not until 1965 that the Commission focused specific attention on the problem of credit abuses in the general field of retail installment transactions. In that year Senator Magnuson wrote to the Commission and suggested that, as part of the war against poverty, the Commission undertake a concentrated effort in the District of Columbia to eradicate deceptive trade practices which victimize the poor. The Commission responded immediately and listed among the practices which it would investigate "the misrepresentation of credit or finance charges or arrangements."

In December 1966, as a result of these investigations, several complaints charging various deceptive credit practices were filed against companies operating in the District, as well as against companies outside the District engaged in interstate commerce. The bulk of these complaints involved retail sellers of merchandise. Some of the deceptions challenged in these complaints were: (1) the execution of retail credit installment contracts in blank or the insertion or alteration of terms in these contracts after their execution; (2) the failure to disclose all material terms of the contract, including the fact that the contract might be factored to third parties; and (3) misrepresentations respecting the nature of the document being signed and the failure to furnish the purchaser with a copy of the contract.(*12*)

One complaint, brought against a retailer and a finance company, charged that the two were affiliated and that the finance company was deceiving the public in holding itself out as a holder in due course of the retailer's commercial paper(*13*). Another complaint issued by the Commission at this time was directed against a loan company for alleged misrepresentations in its advertisements of the terms and conditions of loans which it was offering(*14*). The hearing examiner found that the respondent had misrepresented the interest rates at which its loans could be secured insofar as its advertising claims constituted a representation that such loans were available at a 6 percent rate of interest when in fact the actual rates allegedly charged by respondent ranged from 8 percent compound interest (computed annually on the entire amount owed), up to 18 percent simple interest (computed at a monthly rate of 1½ percent on the unpaid balance).

The hearing examiner also found that the respondent had engaged in deceptive advertising because it had failed to disclose in its advertising certain material terms and conditions imposed on the loan, such as the amount of the finance charge, service fees, closing fees, and the like. The subsequent disclosure of these charges to the debtor at the time of the execution of the loan contract was held not to have cured the original deception in the advertising. This case is now on appeal and pending before the Commission.

PROPOSED GUIDES ON CREDIT TRANSACTIONS

In addition to the complaints which the Commission has brought against alleged credit abuses in the area of retail installment sales(*15*), the Commission has also prepared a set of comprehensive *Guides Relating to Retail Credit Transactions*. These guides are designed to furnish guidance to the business community about practices which the Commission regards as actionable deceptions in this field. They were first published for public comment in December 1966. The analysis of the comments received from the public has been completed, and the Commission is now in a position either to issue these guides in final form or to expand or modify them in the light of these comments and reissue them in their revised form for additional comment.

Let us consider briefly the areas covered by these proposed guides in their present form and the extent to which they differ from truth-in-lending legislation.

Guide I. The first of the Commission's proposed guides deals with the advertising of cash and credit prices for merchandise. The guide prohibits the advertising simply of a total price and a dollar installment amount (e.g., $295, or pay $17.88 a month) where the total installment payments will exceed the total price advertised unless the advertiser in addition discloses the higher credit price or the number of installments required.

Guide I also prohibits the advertising of a price simply in terms of the amount of the weekly or monthly installment required (e.g., "pay only $2.88 weekly") unless in addition the advertiser discloses the total number of payments required and the total amount for which the purchaser will be liable.

The purpose of this guide is first to ensure that the purchaser is enabled to know the different costs to him of financing the purchase on credit or paying for it in cash. Second, and of greater significance to low-income consumers having no real alternative except to purchase on credit, this guide will enable these purchasers to compare both the purchase price and the credit terms being offered by other advertisers or sellers of the same merchandise. It will also readily enable the purchaser to spot quickly the unscrupulous merchandiser who, through the device of pricing his merchandise in terms of an undisclosed number of low weekly installment payments, is in fact getting away with offering a television set for amounts which can and have ranged anywhere from three to six times as much as the normal retail price for comparable merchandise.

This problem of credit absorption into the retail price presents difficulties which may in part also be solved by compelling a retailer to disclose the total price to be paid by the purchaser for the merchandise. Moreover, the type of disclosures required by this Guide I should be of benefit to those retailers who want to offer credit terms which are more favorable than those offered by their competitors but who can in no way counter or better an advertised price which is quoted, for example, simply in terms of a low weekly installment payment.

Guide II. The second guide, as presently proposed, deals with the disclosures which should be made by sellers of merchandise of credit terms and charges which they are offering in connection with the extension of credit on the sale of merchandise. This guide is limited to retail installment credit transactions which are defined to exclude charge account transactions, purchases involving automobiles, and credit transactions directly involving loan companies. The purpose of these disclosure requirements is to make certain that a consumer, at the time of making his purchase, is fully apprised of what the credit is actually costing him both in absolute terms and in relation to the cost of similar credit charged by other retailers or available to him at other lending or finance institutions.

This is the only one of the Commission's guides which overlaps in any way the pending truth-in-lending proposals in Congress. Both the Commission's Guide II and S.5, the truth-in-lending bill as enacted by the Senate, require that the following items of information be disclosed: (1) the cash price of the item; (2) amounts credited as down payments and/or trade-ins; (3) the unpaid cash balance owed by the purchaser before the addition of finance and other charges; (4) other charges, individually itemized, which are to be paid by the purchaser; (5) total amount for which the purchaser will be indebted; (6) number and amount of each installment payment; (7) purchaser's liability in case of default.

While in the main the information the Commission requires to be disclosed is largely identical to that required by the pending legislation, Guide II differs in one important respect from the legislation. The Commission's guide does not contain any requirement with respect to the manner in which the interest rate charge is to be expressed. The Commission was of the opinion that Congress had far more information and expertise than the Commission on this particular question and that therefore it should, at this time, omit any reference to this factor so as to eliminate any possible conflict later between the Commission's guides and legislation which might ultimately be enacted.

Guides III and IV. These guides attempt to deal with possible abuses in the practice, on the part of many retailers, of factoring their commercial papers to loan institutions. The guides also attempt to prevent retailers from avoiding liability for defective merchandise or from taking responsibility for other claims relating to delivery of goods under installment contracts by transferring the debt to a third party. Since frequently a refusal to pay under these contracts may be the only realistic sanction—short of bringing a lawsuit—which a defrauded consumer has against an unscrupulous merchant, it is clear that some effort must be made to prevent the use of this practice for that purpose.

Guide III requires that the purchaser be informed that the retail installment contract may be transferred to a third party against whom defenses to payment of the debt may not be available. It is the premise of this provision that, in view of the efforts of many of the more unscrupulous merchants to pose as friend or counselor to their customers, a required disclosure of the fact that the debt could be transferred and payment made to a total stranger might serve to make the customer more wary of the transaction than he might otherwise be.

Guide IV requires a seller with notice of a claim under a retail installment contract who desires to transfer that contract to a third party to disclose the fact of such claim to the transferee. Again, the objective of this guide is to prevent a merchant from deliberately transferring an installment contract in order to avoid legitimate claims against payment which a customer may have.

Here again, the current truth-in-lending proposals do not touch this practice, although the practice is receiving attention in the current proposed revisions of the Uniform Consumer Credit Code now under discussion by the states.

Finally, the Commission's proposed guides contain several provisions designed to eliminate the abuses which have grown up—again primarily in sales to low-income consumers—of pyramiding retail installment contracts on top of each other and making a default in any payment under one contract operate as a default on all merchandise covered by all contracts outstanding with that retailer(*16*). Thus the guides seek to prevent retailers from designating merchandise securing one contract as security for a different contract; they require a retailer to pass title to the merchandise once full payment is made and, basic to all of these provisions, prohibit retailers from prorating payments over the life of outstanding contracts in such a way that payment will not be completed under any one contract ahead of any other, regardless of the time the merchandise was purchased. Again, no comparable abuses are covered by the pending truth-in-lending proposals now before Congress.

Thus the Commission's retail credit transaction guides are concerned primarily with those abuses in advertising and sales practice involving the extension of credit which fall most heavily on the low-income consumer. With his limited means and his almost total lack of awareness of the legal intricacies of credit buying, the low-income consumer is in no position, financial or otherwise, to assert and defend his rights even where he is aware that he has been the victim of fraud and deception. The Commission's guides, particularly Guide I directed to advertising practices, should go a long way toward making the advertising of credit terms more informative, reflecting the availability of competitive sources either for merchandise or for credit.

It should be emphasized, of course, that the Commission is excluded from asserting any jurisdiction over banks; hence its proposed guides are expressly limited to retail sellers. The practical bounds of the Commission's enforcement jurisdiction under these guides is limited primarily to companies operating in the District of Columbia and to those few retail establishments operating in interstate commerce. In many instances, therefore, these guides will at best function as a standard of credit practices which it is hoped can serve as guides to local enforcement agencies of the types of practices which should be proceeded against given appropriate common law or statutory authority.

The Commission's guides do not in any essential way duplicate or even constitute a substitute for the provisions of the various truth-in-lending bills which are pending before Congress. These legislative proposals are much broader in scope than the Commission's guides in the area of credit disclosure and do not cover other abuses in the field of retail credit transactions. Even in the area of credit disclosures, it is obvious that the truth-in-lending proposals are broadly designed to affect all persons who are regularly engaged in the business of extending credit, both retailers and lending institutions and hence will have a much wider impact on all consumers who need this information in order to be as informed as possible in their manifold credit transactions.

STUDY OF RETAIL CREDIT PRACTICES

The Federal Trade Commission is currently engaged in one other project in the area of credit transactions which we should note briefly. The Commission's staff is making an in-depth study of the credit and mark-up practices of some 165 retailers and finance companies in the District of Columbia to ascertain just what proportion of business is done in the District on the basis of installment sales, the number and value of contracts transferred to finance companies, the retail and wholesale prices of selected items of merchandise, and the gross margins of these retailers. Such a study should enable the Commission to make important correlations among different types of retailers as to the amount of credit business done, together with their loss ratio and profit margins and other similar information.

CONCLUSION

It is apparent that there are many agencies in both federal and state governments engaged in efforts to increase the consumer's access to credit sources, to stimulate flow of credit information, and to stamp out frauds and deceptions connected with the sale of merchandise on credit. Because of the pervasive nature of credit transactions in our economy and the manifold diversity of the needs of consumers in this aspect of the marketplace, no one agency or program can be regarded as the ultimate solution.

In the final analysis, the ultimate solution to the problems of credit availability, the rational use of credit, and the elimination of deceptions in the marketplace remains essentially in the hands of business and the consumer. Government's function in this area must be to strengthen the hand of both business and consumers to resolve these problems.

Every agency must take whatever steps are available to strengthen the ability of the honest businessman to compete more fairly and to assist the consumer to function more effectively in the marketplace.

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2. Not all companies earn direct profits on their credit transactions. They have discovered that the extension of credit can frequently substantially increase their sales volume and consequent profit earned on these transactions. See generally, Welshans, M. T., "Using Credit for Profit Making," *Harvard Business Review*, Vol. 45, 1967, p. 141.
3. The possession of credit cards as a status symbol, the continual advertising barrage of "buy-now-pay-later" inducements, and even the encouragement given to debt obligations by our tax system illustrate the new respectability, legitimacy, and even desirability attached by our society today to credit transactions. See generally, Dickinson, W. B., "Personal Debt in a Consumer Economy," *11 Editorial Research Reports*, No. 10, 1965, p. 821.
4. Morse, R. L. D., *Truth in Lending*, Council on Consumer Information, Pamphlet No. 17, 1966, pp. 10-11.
5. For some recent Court decisions involving these debt collection practices, see: *Federal Trade Commission v. Wm. H. Wise Co.*, 53 FTC 408, *aff'd per curiam*, 246 F.2d 702 (D.C. Cir. 1957), *cert. den.*, 355 U.S. 856, 1957; *United States Association of Credit Bureaus, Inc. v. Federal Trade Commission*, 299 F.2d 212 (7th Cir. 1962); *Rushing v. Federal Trade Commission*, 320 F.2d 280 (5th Cir. 1963); *International Art Co. v. Federal Trade Commission*, 109 F.2d 393 (7th Cir. 1940). See also, *States Credit Control Board*, Docket 8661, 1965-1967 CCH Trade Reg. Rep. Transfer Binder 17,789, 1967.
6. *Budget Counsellors, Inc.* Docket C-748, May 27, 1964.
7. *General Motors Corp.*, 1939, 30 FTC 34, *aff'd.*. 114 F.2d 33 (2nd Cir. 1940); *Ford Motor Co.*, 1939, 30 FTC 49, *aff'd.*, 120 F.2d 175 (4th Cir. 1941). Simultaneously, identical complaints were issued against *Nash Motors Co.*, Docket No. 3000, *Chrysler Corp.*, Docket No. 3002, *Graham-Paige Motors Corp.*, Docket No. 3003, *Hudson Motor Car Co.*, Docket No. 3004, *Reo Motor Car Co.*, Docket No. 3006, and *Packard Motor Car Co.*, Docket No. 3007. All of these cases terminated in identical consent orders prohibiting the use of the term 6 percent unless it was made clear that it did not refer to, or indicate, a 6 percent (or other amount) per annum simple interest on unpaid balances.
8. *Rule Relating to Sale and Financing of Motor Vehicles*, 1951. 16 C. F. R. §197.2.
9. *Ibid.*, §§197.3-197.5.
10. "The Consumer in the Marketplace—A Survey of the Law of Informed Buying." *Notre Dame Law*, Vol. 43, 1963, pp. 576-598.
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12. *Empeco Corp.*, Docket No. 8702, 1967, stipulated order, pars. 5-11; *Allied Enterprizes*, Docket No. 8722, 1967, default order, pars. 4-5; *Custom Sleep Shoppes, Ltd.*, Docket No. 8709, 1967, consent order, pars. 10 and 11; *Allstate Industries of North Carolina*, Docket No. 8738, 1967, case pending before hearing examiner, proposed order, par. 14.
13. *Thermochemical Products, Inc., Wolmart Discount Corporation, et al.*, Docket No. 8725, January 1967, complaint filed.
14. *Consolidated Mortgage Company*, Docket No. 8723, hearing examiner's Initial Decision, May 31, 1967, now pending on appeal before the Commission.
15. Other complaints, not necessarily involving D.C. companies, have been issued recently involving deception in the extension of credit. See: *American Foods, Inc.*, Docket No. C-745, May 13, 1964; *World Wide Television Corp.*, Docket No. 8595, October 12, 1964, *aff'd.*, 352 F.2d 303 (3rd Cir. 1965).
16. See, for example, *Williams v. Walker Thomas Furniture Co.*, 350 F.2d 445 (D.C. Cir. 1965).

THE SEARCH FOR UNIFORM CREDIT LEGISLATION

CYRIL J. JEDLICKA

Consumer credit has become a major factor in our economy and affects the lives of each one of us. Mass production and mass distribution of our products would not be possible without the use of mass consumer credit. The tremendous growth of credit outstanding from a few billion dollars at the end of World War II to the present total of over 95 billion dollars shows the dependence of our economy on this consumer financing. Budgeting through installment buying has become a way of life for millions of our citizens. Former luxuries are now commonplace purchases for the average man through the convenience of installment buying.

Installment buying, if properly used, is really an enforced savings plan with the consumer using the article purchased while he is still paying for it. In most cases, the usable life of the article extends much longer than the payment plan. As an example, a new car purchased on a three-year term usually has a value of approximately 40 percent of the original cost at the end of three years and a usable life of three to five years longer. Without installment buying few of our families would be able to own homes, furniture, and appliances, or the many other necessities and conveniences they now enjoy.

If this overall picture is so favorable, why has the credit industry in the last few years received such sharp criticism from the press and feature writers? What prompted the directives from the Federal Trade Commission and the Department of Defense? Why the interest of the federal government as evidenced by the newly appointed Consumer Advisory Council? Why in the "in-depth" study by the National Conference of Commissioners on Uniform State Laws on possible uniform credit legislation? Why the rash of new consumer laws at the state level and the drive for uniform disclosure by Congress?

There is no doubt that one of the factors creating this interest in the workings of consumer credit and installment lending is the practice of certain abuses by a small minority of both lenders and retailers and also by some consumers. There are always fringe operators who take advantage of their customers. And it is extremely difficult to write laws to cover every contingency.

This situation of abusive practices is further complicated by the fact that each of the 50 states has legislation to control consumer credit to some degree, thereby creating a confusion of laws. Some states have very lax and inadequate laws on this subject which lead to ways of evasion. As conditions have changed over the years, many of these laws have been amended piecemeal, making them difficult to understand. It is generally agreed, and studies show, that some revisions are needed. Uniformity in the laws of the various states would be most desirable. The consumer credit industry would welcome means to curtail the operations of credit grantors who take advantage of customers.

But drastic laws are not the entire answer to this problem. There is a point at which laws may become so strict that they make lending unprofitable and ultimately dry up the sources of credit. We must not unduly penalize the masses in an effort to correct abuses practiced by a few. Much of the publicity would lead us to believe that abuses are the general practice rather than the occasional exception. The millions of people who have used consumer credit to better their economic conditions are forgotten. Forgotten also are the 99 percent of the users who pay over $4 billion monthly on their consumer installment obligations as agreed and continue to enjoy the benefits of this privilege of installment buying. These benefits are taken for granted and not publicized.

Consumer credit, like any other good thing, *can* be abused. The user must be educated in the proper use of consumer credit. He must be taught that too much consumer credit at one time will lead to financial problems. Secondary schools and colleges should offer courses in the various skills needed by a consumer, but it is unfortunate that the lending industry and other businesses have not taken the lead to implement such education for their customers. Considerable interest is now being shown in consumer education by various agencies of our national government. This is not only desirable but also essential in the years ahead regardless of the trends of legislation.

The overloading of obligations is one of the more common abuses of installment and consumer lending. It is one that is not easily rectified by legislation. Lenders and retailers are commonly accused of being responsible for overloading the consumer. In a few cases this is no doubt true, but in the majority of transactions this does not apply. Competition, long terms, inadequate credit reporting, overselling, and enticing advertising are all factors in these credit decisions. However, very few lenders or retailers are knowingly going to overload the consumer to the point where he cannot pay and thus become a loss account.

In my experience and opinion, responsibility for the overloading in a majority of cases must fall primarily on the consumer. Inadequate credit information is the rule rather than the exception, for instead of supplying a full list of obligations owed, credit applicants offer only a few, and usually they are the most satisfactory ones. A true evaluation of the total debt load is hard to obtain with some obligations missing. In installment sales some of this may properly be blamed on the dealer or his salesmen, but the same situation exists in the direct loan field. Too many debtors treat credit as a game of wits and deliberately withhold information in applying for credit.

Unfortunately, the credit-reporting services, while doing a good overall job, are not equipped to learn of every credit source. If a debtor owes loan companies, retailers, or others and does not list these obligations, our present reporting systems may not uncover them in a credit check. If these items were disclosed, many troublesome credit advances would not be made. Possibly through education consumers will learn their practical debt limits and not overextend themselves. Credit-reporting agencies, in turn, are constantly striving to increase their coverage toward a 100 percent goal.

APPRAISAL OF STATE CREDIT LAWS

Against such a background the National Conference of Commissioners on Uniform State Laws initiated a study over three years ago by setting up a Committee on Retail Installment Sales, Consumer Credit, Small Loans and Usury. The project is as broad as the title of the Committee indicates. This special Committee is headed by Alfred A. Buerger, a Buffalo attorney, and consists of a committee of commissioners assisted by a paid staff of legal, economic, and social experts. A credit industry advisory committee has been set up to assist the Committee in its study, and other advisers represent public interests and state supervisory officials.

The purpose of this study is to re-examine and reappraise state consumer credit laws and to propose a Uniform Consumer Credit Code that might be enacted by state legislatures. Such a code would replace all existing state laws that regulate consumer credit.

Because the membership of the special Committee, its staff, and advisers combines a wide range of interest and many different points of view, every effort has been made in the hearings and studies to enable each to express his views and opinions. In addition, a sincere effort has been made to learn and understand the operating problems of all the industry members, loan companies, banks, judges, attorneys, etc., as well as to listen to all possible complaints and possible unfair practices.

While this has taken a tremendous amount of time, it was deemed essential that all understand the problems before attempting to write the code. After two years of sessions, the drafters wrote the first draft of a proposed law which was reviewed and then rewritten several times to incorporate the changes and necessary corrections. Great progress has been made, and the last revision, known as NCCUSL Second Tentative Draft—Working Draft No. 4, is approaching final form although much work remains to be done before completion.

As presently written, this Code provides that all consumer credit legislation shall be combined into one overall consumer credit code. The Code makes two major classifications based on loan credit and sale credit: (1) consumer installment loans, which would also include revolving loans and check credit, and second mortgages on homes; and (2) consumer installment sales, which would include credit sales of automobiles, other goods and services, and revolving sale credit.

Installment financing under credit cards, home repair financing, and insurance premium financing would be covered in one or both of the two major categories of loans and credit sales. All forms of consumer credit are to be regulated as nearly alike as possible. The Code is designed to cover all transactions with individuals for "personal family or household purposes" and for "farm purposes."

The maximum rate for installment sales now under consideration is an add-on rate of $18 per $100 per year for the first $300 of the unpaid balance of the sale; $12 per $100 per year from $300 to $1,000; and $8 per $100 per year for the remainder. These rates would be computed on the original principal balance for the full term of the contract without regard to installment payments. This schedule of rates is actually a ceiling on possible charges above which the rate cannot go. Competition would be allowed to operate to produce an effective rate below the ceiling.

There would also be default and deferment charges provided, and rebates for prepayments in full when charges have been made on an add-on basis. Such rebates would be computed on the Rule of 78, which is presently used by most financial institutions.

Loan finance charges for consumer loans other than regulated loans and revolving loan credit will provide a maximum permissible charge, however calculated, not in excess of 18 percent per year calculated on the unpaid balances of the principal according to the United States rule. Maximum permissible charges on regulated loans are the same as charges permitted on installment sales. Maximum charges on revolving loans and revolving credit sales and credit cards are 2 percent monthly on the first $500 and 1½ percent monthly on over that amount.

DISCLOSURE OF COSTS

For several years, the Senate of the United States has endeavored to pass a bill requiring disclosure of interest and other costs of consumer loans and consumer purchases on some uniform basis so as to enable the consumer to compare costs before entering into a contract. This objective is most desirable, and both business and banking endorse the principle of full disclosure without reservation. Many believe, however, that this is a matter for state rather than federal legislation. Most states already have some credit disclosure laws on their books, but the real problem in this issue is the method of disclosure.

Testimony by bankers and many other knowledgeable witnesses points out that disclosure in terms of simple annual interest is unworkable in a substantial number of consumer credit transactions. Even with rate charts this will prove burdensome and costly to lenders and retailers alike. From my own personal experience I am convinced that the consumer wants to know what the cost will be in dollars. He knows and can decide how many dollars the merchandise or money is worth to him. The consumer buys more and more processed and packaged food from the supermarket. He knows this costs him more than bulk food, but it is worth the additional cost to him. A hypothetical percentage rate is not helpful—rather it is confusing to the average consumer. Why burden business with additional costs to give the consumer something he does not understand or does not want? In turn, the additional cost is passed along to the consumer.

After considerable study, the National Conference of Commissioners decided (tentatively) to provide in their Code for disclosure in terms of dollars per year per hundred. The majority opinion of this group believed this to be more informative and understandable. Pressures for disclosure on the simple annual rate continue, however, and I am informed that at the annual meeting of the Commissioners in August 1967, a tentative decision was reached to revise the Code to require annual percentage disclosure to conform to pending federal legislation. This is somewhat surprising and disheartening.

Representative Leonor K. Sullivan, Chairman of the House Subcommittee on Consumer Affairs, has introduced a disclosure bill in the House. Mrs. Sullivan says about S.5, Senator William Proxmire's Truth-in-Lending bill, "It does have some good things in it, but it is not as strong as we would like to see it. Our bill will not be that simple. We plan to have more things in it." Some of the provisions of her proposed bill are so strong as to be considered "punitive toward the industry." The consumer loan and time sales industry is beginning to wonder what will remain in the law(s) to protect the creditor.

It has been said that our present consumer laws are slanted in favor of the creditor. Based on suggestions such as those mentioned above and suggestions made to the NCCUSL, some of which are incorporated in the latest draft of the Code, many proposed laws are slanted heavily in favor of the delinquent consumer. Would not a middle ground be more effective?

Inadequate protection for the creditor will result in one of two choices. Because of the increased hazards, thereby increasing credit losses, either credit will be less available to large segments of our population or it will cost more if available. Such results certainly would not be "helping the consumer." It is hoped that changes made in present legislation will be considered in the light of long-range benefit to the consumer and to our economy.

OTHER PROVISIONS OF THE CODE

Let us consider some other aspects of the study of the National Conference of Commissioners on Uniform State Laws. Provisions in the proposed Code provide restrictions on advertising. If a rate is mentioned in an advertisement, the dollar amount of the charge, the term, and the amount of the payment must also be included. Limitations are also placed on insurance sold in connection with loans and sales. Many of these parts of the Code are still being rewritten.

Considerable attention is being paid to creditors' collection remedies, as it is felt that many abuses arise from the present laws on these subjects. The present version prohibits wage assignments for installment sales, limits wage assignments for loans to wages exceeding $100 per week, and exempts wages from garnishment up to $100 a week. It also prohibits attorney fees unless paid to an outside attorney not employed by the same firm and limits the amount to 10 percent of the unpaid balance at time of default.

Other major changes prohibit deficiency judgments for installment sales when the unpaid balance does not exceed $500 and limits the right of sales finance companies and banks to take an installment buyer's contract free of the buyer's defenses against the seller.

All of these changes will present problems to creditors, many of whom believe we are going too far in making such changes. Certain types of credit will be affected and will be less available than previously. Only time will tell the merit of the changes.

The tentative draft of the NCCUSL provides for a Consumer Credit Administrator to enforce the Code. This may be a newly created state office or an existing state office, such as a Banking Department. In some states, possibly more than one office would be concerned in this enforcement. The Code gives wide authority to examine books and records when violations are suspected, to issue cease and desist orders against violators, and to obtain injunctions if necessary. The Administrators may make rules and regulations, bring lawsuits on behalf of debtors to enforce their legal rights and bring lawsuits to enjoin fraud or unconscionable conduct which relates to the granting of credit or the collection of delinquent debts.

Of course, many problems are inherent in these various changes. One would be the question of the jurisdiction of a state officer to enforce the Code where national banks and other federally incorporated lenders are involved. Such a question might require resolution by federal legislation, or federal officials to enforce the Code when federal institutions are concerned.

The present draft prohibits unconscionable and fraudulent conduct. The Administrator may bring a civil action to restrain a creditor from following a course of unconscionable conduct in making or collecting loans or sales. This may be done only after the creditor has failed to give assurance after written notice of the charges made.

Certain dollar amounts in this proposed Code are subject to escalation, and at stated periods the Administrator is charged with responsibility for raising these figures in accordance with a schedule based on the U.S. Bureau of Labor Statistics Price Index for Urban Wage Earners and Clerical Workers. If the Index rises, the figures in the Code designated for escalation will be raised 10 percent for each 10 percent rise in the Index.

MEETING FAMILY NEEDS

In addition to the other provisions, the proposed Code provides for supervision of non-profit consumer credit counseling agencies. There are many such agencies now operating in various urban centers and all seem to be doing an outstanding job in counseling families and individuals in their financial affairs. In most distress cases, a budget is worked out, and, through the cooperation of the individual and his creditors, the debts are paid off over a period of time. The cost of such services is small and in many cases free.

However, one of the most frustrating problems is that concerning the needs of low-income families. These families face a choice of either doing without the kinds of purchases that others enjoy, or being exploited by low-quality merchandisers who specialize in financing high-risk customers. Disclosure of the terms of credit will not suffice for this group and legislation is of doubtful value. If their small credit is dried up they must turn to other sources, such as peddlers or loan sharks.

The installment loan business is one involving many details in making and servicing the transaction. As a result, costs are relatively high. A small loan costs as much as a large one (interest for use of funds excluded). Small loans with their higher risks are not attractive to lenders. Who will take care of this class of borrower? Until the causes of poverty are removed, the problems still remain.

As I have mentioned previously, many groups are working to solve the problems of the consumer. Financing is only one phase of the problem. Government on every level is working to protect the consumer, sometimes known by the name "voter." This current trend of "protecting the consumer" in my opinion is being overdone. The great majority of our people do not need protection in the area of consumer financing, and they find this industry, as presently run and operated, useful and beneficial to them.

Too many of the leaders in reform groups are not well versed in the actual workings of the credit industry. They have never had an acquaintance with the man on the street and do not know his day-to-day aspirations and troubles. Too often action is taken without a complete study and knowledge of all the facts and ramifications.

Recently the President announced the appointment of his new Consumer Advisory Council. The 12 members of the Council are all outstanding men and women and extremely capable in their respective fields. But I would have much more confidence in this Council if it included in its membership one or two members from the banking and loan fields in order to utilize the know-how of someone in the industry under study.

All of us, I am sure, are impressed with the background and integrity of the National Conference of Commissioners on Uniform State Laws. The many uniform laws they have sponsored is proof of their ability and farsightedness. They are currently making an in-depth study of the whole industry and have utilized the best thinking and knowledge of leaders in every phase of the industry. They are currently writing a law to cover the whole industry, and they are making every effort to solve the problems and prevent all possible abuses. The NCCUSL should have a chance to complete its job before other laws are passed.

There are many points about the Uniform Code that are impossible to take up here—points involving hundreds of compromises by all concerned. I feel privileged to have been able to represent a small part of the consumer and banking industry in the long study. A great deal of work remains to be done, and even after completion, it will take years for a majority of the states to enact the Code into law.

WHAT IS BEYOND TRUTH-IN-LENDING AND OTHER CREDIT ISSUES

LESLIE V. DIX

The purpose of my discussion is to urge a point of view which maintains that because of the sheer size of the consumer debt and its rapid rate of growth, an overhaul in our credit laws and regulatory machinery is indicated. The present statutory base can neither support such an important task nor provide the consumer the necessary safeguards to insure the wise and equitable use of credit in these latter years of the 20th century.

Changes in consumer legislation, including credit, are being sought by an increasingly informed public that demands improvement in the marketplace, improvement in the quality of the goods and services available to the consumer. Some elements in our society are still resisting these drives for reform and attempt to label argument for credit regulation as mere "consumerism" sponsored by those persons of the "bleeding heart" variety.

I do not agree with this and would call to your attention the February 1967 issue of *Fortune* which features an article on the history of the truth-in-packaging law entitled "Industry Still Has Something to Learn about Congress." It is a case study in how *not* to deal with consumers. The author states that "Industry's strategic mistake in battling truth in packaging was to adopt an attitude of intransigent opposition." Need for such a law was denied, the right of the government to interfere was challenged, and every attempt was made to kill the bill.

Mr. E. B. Weiss, vice-president of the advertising firm of Doyle Dane Bernbach Inc., in his pamphlet *A Critique of Consumerism* states pertinently, "The current consumerism furor must not be viewed as simply an irritant—and especially not as a *temporary* irritant. To the contrary, it must be recognized as the first stirrings of a *long-term social revolution* that will profoundly change marketing in *all* its aspects . . ." (The emphases belong to Mr. Weiss.) He also maintains that instead of consumerism going away, ". . . it will *gain momentum* . . ." and that "an affluent society of sophisticated consumers—and this is the fundamental characteristic of tomorrow's markets—is just beginning to demand new standards. . . . The mounting dialogue concerns those grey areas between fraud and the golden rule—between what is legally permissible and what is morally and ethically wrong. . . ."

Obviously, consumer credit, inextricably woven into the fabric of the marketplace, is very much a part of what Mr. Weiss is portraying. Having made this case suggesting a nearing emergency, I trust the remarks that follow warrant your thoughtful consideration.

CREDIT REGULATIONS NOT UNIFORM

Today's credit is regulated by a fragmented statutory hodgepodge which reveals no particular uniformity among the several states. Because credit laws have been developed on an *ad hoc* basis, designed to take care of problems as they relate to the lender of money and the borrower in straitened circumstances, the legal underpinning for our burgeoning economic activity has not kept pace with the phenomenal growth witnessed in consumer credit in the last half century or less.

We are all familiar with the benefits of the federal truth-in-lending bill. Similar legislation is being introduced in legislatures across the country. The success now being experienced in Massachusetts under its truth-in-lending law and the monumental legislative project under way in the National Conference of Commissioners on Uniform State Laws in drafting the Uniform Consumer Credit Code dramatize the changes coming with respect to consumer law, regulation, and administration.

However, the "cashless society" that many of our economists forecast now appears to be technically feasible through universal credit cards and computerized debt record-keeping, so the needs for a uniform consumer credit legal and regulatory structure should be considered.

One other prefatory comment is in order: According to the Bureau of the Census, about 20 percent of our citizens (one in five) have moved every year for the past 10 years. In that 10-year period, some 6.3 million moved intrastate, 2 million moved to contiguous states, and some 4.3 million moved to non-contiguous states. With the present lack of uniformity in our credit laws among states, the differences in rates, lending practices, and creditors' remedies must be very confusing to the consumer. Moreover, the interstate creditor must find it expensive to cope with such a varied scene.

The point of all this is that without a uniform law for states, a strong case can be made for consumer credit regulation at the federal level because of the strong interstate commerce features characterizing most businesses. If one were to define consumer credit in interstate commerce as including (1) credit financed in whole or in part by funds that pass in commerce from commercial sources to the creditor; (2) credit granted to a debtor domiciled in a state different from the creditor; (3) credit granted by those maintaining places of business in more than one state; (4) credit granted by creditors that finance goods or services which are in interstate commerce; or (5) creditors that offer credit by advertisements appearing in interstate commerce; such definition would embrace most of the consumer credit industry.

But there has been progress of a kind at the state level: the National Conference of Commissioners of Uniform State Laws has been drafting a Uniform Consumer Credit Code (a project in which I have participated). The code is designed to govern consumer credit transactions in those states that will ultimately adopt the Code if it is finally certified through the legislatures for action. Because the evidence reviewed to date suggests that consumer credit laws have been weighted in favor of the creditor and drawn for the most part to still allow sharp practice against the debtor by the unscrupulous, the promise of *any* remedial action is most encouraging. The hope, of course, is for a uniform law which will *balance the creditor-debtor interests and eliminate many of the bases for injustices anciently devised as protection for the creditor in common law when credit was uncommonly granted.* The present draft falls short of this goal.

SOUND ADMINISTRATION IMPORTANT

In addition to full disclosure, or truth-in-lending as it has come to be called, consumer credit legislation, federal or state, should provide for sound administration on a par with administration of monetary activities of the country. This statement is made in anticipation of an almost cashless society in which it will become as important to regulate and monitor the credit industry as it is the monetary.

A consumer credit commission formed to administer the nation's consumer credit should have the authority, among other things, to (1) issue procedures and rules of practice to govern adjudicative proceedings for the commission and such hearing examiners as it may appoint; (2) initiate and conduct investigative proceedings to determine the existence of unlawful credit practices; (3) issue stipulations to cease and desist; and (4) have a consent order procedure and other powers and features characteristic of regulatory commissions.

In looking at the problem of attempting to balance the creditor-debtor remedies, the holder-in-due-course doctrine, with respect to consumer financing, should be changed to prohibit the seller from accepting a negotiable instrument as evidence of the obligation of the debtor. In other words, a transferee of the seller's rights should be subject to all claims and defenses of the debtor against the seller arising out of the sale, notwithstanding an agreement to the contrary.

The holder-in-due-course principle comes from the law merchant and is most appropriate for transactions between businessmen. However, this should no longer apply to consumer transactions. The sales finance company that routinely accepts a paper from a seller should stand in the shoes of the seller when it comes to the consumer's complaint and accept this responsibility as a cost of doing business.

The previously mentioned Uniform Consumer Credit Code draft does water down the holder-in-due-course doctrine as it is used against consumers. But it fails in that the holder in due course escapes any penalties for collecting illegally high interest. Moreover, the draft fails to recognize the often close relationship, sometimes amounting to a partnership, *de facto* or otherwise, between the seller and the holder. Although defenses against the seller could now be used against the holder, the holder in due course is told he can execute an illegal promissory note.

What is wrong here is that the consumer must generally initiate the action against the seller or the holder. It should be the other way around. Let the creditor and his sales finance company prove they have a legitimate claim against the buyer. He should have his day in court, or before a hearing examiner, and an officer of the government should be there to protect his rights.

UNIFORM CODE PROPOSES RESTRICTIONS

The Uniform Consumer Credit Code draft proposes some restrictions on deficiency judgments and prohibits garnishment before judgment. Greater restrictions are needed on the use of the deficiency judgment, the abolition of the garnishment as a means of collection, and the prohibition of confessions of judgment.

In states where these practices have been outlawed or severely restricted, there has been no comparable restriction in consumer credit. To the contrary, the extension of consumer credit is growing everywhere. Abolition of these ancient crutches for collection will make creditors more selective in the granting of credit or in obtaining adequate down payment or security for the credit granted. Where the practice of confession of judgment is still allowed, it is subject to abuses, particularly against the ignorant and the poor.

On the debtor's side equity demands the allowance to recover excess charges made against him; and if it is found that the debtor has paid, or agreed to pay, an excess charge, knowingly or unknowingly, the respondent should be ordered to restore the excess charge to the debtor and pay a civil penalty. This punitive feature could also include, in addition to maximum civil penalties, the revocation of the license to engage in consumer credit.

The last statement suggests another area of concern. The small loan lender has been subjected to licensing and strict regulation for many years. He is now a relatively small part of the total consumer credit business in the country. Since retail credit financing has become the larger, from the standpoint of dollar volume, why should not the retailer be licensed to sell on credit and to earn the income that 18 percent per annum, and higher, brings him? Why should not the sharp operator who sells merchandise on credit be kept out of the credit business for repeated infractions of the law? It seems that it should be possible for the regulatory authorities to say, after due process has been observed, "of course you may continue in the cash business if you wish, but your license to sell on credit is revoked for cause." In addition, the licensing feature would provide a source of revenue to bear the cost of regulating the credit industry.

Consideration should be given to granting the consumer credit administrator or commission, whatever form the regulatory authority might take, the power to bring an action against the creditor in (1) enforcing consumer credit sales, consumer leases, or consumer loans, the terms of which are unconscionable; (2) for engaging in fraudulent conduct in inducing debtors to enter into consumer credit sales; or (3) for engaging in a course of an unconscionable or fraudulent conduct in the collection of debt.

There is much to be done in the whole area of consumer credit regulation; but in addition to urging the need for uniform legislation, be it federal or state, I would also suggest that any study project include the following: (1) examination of the varied relations between creditor and debtor prior to execution of debt contract; (2) proposals for improving the tone and appeal of inducements to borrow; and (3) development of a model credit contract to be used throughout the country, and including the terms of disclosure, the debtor's as well as the creditor's remedies, and the composition of language governing the use of the contract, including its recordation.

DEPARTMENT OF DEFENSE DIRECTIVE

A few words about the Department of Defense Directive on truth in lending or personal commercial affairs seem appropriate.

When I served as Director for Civil Affairs in the U.S. Department of Defense, I had a part in developing the directive now in force. The Department recognized the necessity for those who sell or lend to the military to make full disclosure before the loan, credit agreement, or contract was made. Although a majority of those business firms and individuals dealing with military personnel have traditionally displayed a sense of fairness and integrity, those merchants not honoring a high standard of ethics, especially in the moneylending or automobile financing businesses, caused the Department serious concern regarding its responsibility toward the protection of the welfare of the men in service.

In facing this problem, it was also paramount that a uniform approach assuring equal application by all services be developed. Consequently, the Department published a directive which prescribes, among other things, standards of fairness in full disclosures by lenders and sellers dealing with members of the Armed Forces. Thus, those who sell or loan to military personnel are "expected to subscribe to the standards of fairness and to make full disclosure before the loan or credit agreement or contract is executed." An annex to this portion of the directive lists 10 standards of fairness involved in fair and just dealings with servicemen. The requirements for stating the costs of credit in terms of an annual percentage rate are generally those put before the Congress in the form of truth-in-lending legislation. The program has proved successful and has been urged for extension beyond military personnel to include all federal employees.

I hope these remarks have pointed some ways toward improving the quality of the marketplace in order that free enterprise can flourish under rules that are uniform and fair to the consumer as well as the creditor.

REVOLVING CREDIT PLANS AND THE LAW

BRONSON C. LA FOLLETTE

The American family today with its material standard of living is in an enviable position in contrast to the families of any other country or in comparison to its own situation in the past.

This is true not only with regard to what is technically termed a family's "standard of living," a phrase which many social scientists use to mean the manner of living that is earnestly desired and worked for, whether realized or not; it is also true with respect to the "level of living" and "level of consumption," concepts used in scientific terminology to mean the plane of living actually realized and the plane of living actually achieved.

During the first half of the present century, Americans more than doubled their scale of living in real terms. The great rise in the level of consumption of the American family from 1900 to 1950 resulted from a fivefold increase in the real national product of the United States. Since population only doubled in this period, the quantity of commodities available per person in this country increased by two and one-half times.

Since this great gain in material welfare was achieved with an increase of only 80 percent in total man-hours of labor input, as compared with the 100 percent growth in population, there resulted a saving of effort, a lightening of toil, and an increase in leisure, an important component of our higher level of living.

Along with a higher level of living, a greater dependency on consumer credit has emerged. The seemingly rosy picture of today's family is colored by the availability of consumer credit in today's market, credit advertised by such slogans as "buy now, pay later," "no money down," "consolidate your bills," or "instant credit."

In 1945 consumer debt was less than $6 billion, one-fortieth the size of the federal debt. High incomes during the war years, combined with shortages of consumer goods, had led consumers to reduce their debt to a very low level. In 1966, consumer debt stood at $86 billion, one-third the size of the federal debt. As a share of disposable income, consumer credit rose from 10 percent in 1950 to 19 percent in 1966.

While many families use credit wisely, too many must wage a continuous uphill battle to keep ahead of their debts. Although most of them do not go bankrupt, last year 9 out of 10 bankruptcies—170,000—were incurred by families and individuals. The number of persons who are over-extended cannot be accurately measured, but the bankruptcy statistics suggest a growing problem that cannot be ignored.

INTELLIGENT DECISIONS NECESSARY

For wary or affluent consumers, as well as the unsophisticated and economically despairing, present-day practices make it almost impossible to make intelligent decisions about credit. Various methods of stating consumer credit costs confuse, confound, and often mask the true financing cost. In an ideal credit transaction, the debtor is told the accurate cost of credit, and the charges are stated as an annual rate. More frequently, however, instead of this ideal situation, the following practices are employed: (1) the price of credit is given as a simple monthly rate that on a true annual basis amounts to 12 times the monthly rate; (2) the borrower is quoted an add-on figure or discount percentage rate (that is, he is quoted a rate on the original amount of credit rather than on the periodic declining balance; the true interest rate is approximately twice the rate that is quoted or discount rate); (3) the consumer is quoted an add-on or discount rate plus numerous extra fees, such as insurance (in this case, the true annual rate is considerably more than twice the quoted rate); or (4) no rate is quoted—the borrower is only told the amount down and the amount due each month.

Today, buy-now-pay-later is the most accepted way to travel, dine, and shop. People fail to understand that consumer credit is promoted heavily through advertising, not as a way of selling more goods and services but as a commodity in itself. Debt is promoted skillfully and sold with no more ethical restraints than those that apply to cold cures, weight reducers, and cigarettes.

Today, retailers have found it necessary to offer some type of easy credit plan in order to help pay for their product. One of these plans is the revolving charge account. The rapidly spreading "revolving" and "optional revolving" accounts introduce the two-or-more-payment principle of the installment account and also retain important features of the 30-day charge accounts. They pick up the service charge, traditionally a part of installment buying or borrowing, but usually apply it differently.

Revolving credit is one kind of consumer credit that most people are familiar with, whether or not they make a practice of buying on time. People who buy at all regularly in most department stores or from big mail order houses usually open charge accounts. It's convenient to pay the bill once a month and there is usually no credit charge if the bill is paid within 30 days. Every customer, whether he pays cash over the counter or uses a charge account foots the cost of 30-day credit as part of the overhead built into the price of the goods.

With revolving charge accounts, the customer signs an agreement at the beginning, which becomes the continuing basic contract underlying all use made of the account. He is assigned a top dollar limit and usually agrees to pay within 30 days any amount that he might charge over this agreed-upon limit, for there may be times when a purchase runs the account slightly above the maximum as set by the parties. To avoid intentional misuse, the original agreement often will provide that if such coverage is not paid in the 30-day period, the whole balance on the account becomes due immediately and the usual monthly payment privilege ends.

There is a wide variety of revolving charge accounts, and the customer's credit limit may be $60, $100, $300, or even $5,000, in some instances. He may even agree to repay monthly either a fixed fraction of this total "limit," regardless of the amount he owes at any time, or a percentage of the actual balance outstanding on his bill at the end of each month. New purchases may be made at any time so long as the total obligation remains within the limit.

Another payment plan often seen is the *bracketed* form. Each month a credit service charge is added, for instance one percent or one and one-half percent of the amount carried over unpaid from the total billed last month. No charge is made on the new entries for purchase since the last billing.

The *optional* account is even more simple. It actually is a regular open or 30-day charge account to which the customer has requested to have the option added. That is, he may pay the whole balance within 15 or 20 days of receipt of his bill (when there will be no credit service charge), or he may pay any portion of it that is convenient. Then on any amount not paid by the time the next bill is made out (which would be after the 15-to-20-day period following the first bill) a charge of one percent or one and one-half percent is added. As in other revolving credit, this charge would not be applied to purchases or additions in the then current month; rather, it would be applied to the sum left unpaid from the last billing. Obviously, the faster the revolving and optional accounts are paid out, the smaller the credit service charge will be.

BUYER USUALLY HOLDS TITLE

Unless otherwise stated, legal title to commodities purchased on revolving plans passes to the buyer at the time of purchase. Where specifically provided, perhaps when the item is furniture, an electrical appliance, or some other costly product, title may remain with the store until the item is paid for in full. However, there are many different sets of rules for juggling revolving credit. Different stores use different rules. A revolving charge account can cost considerably more at one store than another, though both seem to be charging 18 percent annual interest.

Unfortunately, credit devices often exist which encourage default and give creditors rights to repossess. These may be written into sales contracts in an obscure form calculated to confuse. "Balloon payment" provisions set low initial payments and large final payments. As the final payment approaches, default is likely. The creditor repossesses the item, keeps the payments, and may even get a deficiency judgment for the unpaid contract price.

Another confusing device is to let the buyer purchase a series of items on credit as long as the total debt does not exceed a certain limit. Some contracts are written so that as long as any portion of the total debt remains unpaid, the creditor may repossess all items purchased under the contract. Thus, a debtor may have purchased a $100 television set, a $150 sofa, and a $20 toaster, and over a period of months have paid $255. But if he defaults before completing his toaster payments, the seller has the right to repossess all three items.

NO EFFECTIVE LEGISLATION

The problem that exists with revolving charge accounts, as well as other means of obtaining credit, is that they are often complicated and not understandable to the ordinary layman. Lack of expertise on the part of the person who buys on credit gives the unscrupulous businessman a powerful advantage. A specific problem with revolving charge accounts is that they have escaped any effective legislation.

On the federal level, the Senate truth-in-lending bill fails to provide any remedy to protect shoppers who use revolving charge accounts and bank credit cards. Under the bill, revolving credit as applied to most department store accounts and most of the new revolving bank credit cards would continue to be labeled, as it usually is now, with a deceptively low monthly percentage figure.

In Wisconsin there is considerable uncertainty as to whether Wisconsin's usury laws apply to service charges of retail merchants. The question can be finally resolved only by the courts. Individual consumers do have an existing legal remedy in Wisconsin, but the time, effort, and legal cost involved is usually much greater than their actual loss.

A consumer's lack of economic sophistication and knowledge of legal rights can lead to his being taken advantage of with outrageous credit charges. Courts of equity should seek to protect the rights involved. Until recently, most courts have been reluctant to interfere with deficiency judgments; they have upheld repossession and attachment rights on contracts which might well have been found unenforceable because of insufficient legal resources to contest them. But now courts tend to find such contracts unenforceable. This is especially important since such a determination by the courts represents the only contact the urban poor have with courts of civil law. The courts, therefore, can be viewed as institutions of redress, rather than of oppression.

Although the courts can help the consumer in some ways, there is still a dire need to fully inform the consumer concerning various facets of revolving charge accounts. The consumer should be told that revolving accounts, offered at the prevailing rate of one and one-half percent a month, actually come to 18 percent a year. With this knowledge, the buyer might prefer to borrow money elsewhere at a lower rate of interest to pay off his account. Unless the billing system is understood thoroughly, charge accounts cannot be used economically. But the essential facts are not always obtained today.

As Chairman of the President's Consumer Advisory Council, I plan to fully assess the consumer's position in this segment of the marketplace. Every concerned specialist, including members of the American Home Economics Association, should do his share to insure that consumer credit adequately serves the needs of sound family financial management.

PROFILE OF THE PROBLEM USER OF CREDIT—THE BANKRUPT

SUZANNE MATSEN

You have probably heard the saying "Money isn't everything, but it's way ahead of whatever is in second place." I don't think anyone believes in that saying more than the bankrupt.

Bankruptcy is a social as well as financial ailment. We have heard a lot about the business community losing hard-earned money because of bankruptcy. What we haven't heard so much about is the bankrupt himself. The bankrupt individual or family also lose a lot of money; and, perhaps more important, they lose self-respect and dignity. Is there a more glaring admission of family financial failure than bankruptcy?

Bankruptcy dates back to Biblical times; for instance, Deuteronomy 15 refers to the granting of a release from debt itself. The word bankruptcy originated centuries ago in Italy, where bankers conducted business from benches in the Italian exchange. When one of the bankers would become insolvent, his bench was broken and he was called *banco rotto* or "broken bench." These words evolved into the English "bankrupt."(*1*)

The subject of this discussion is non-business bankruptcy, sometimes referred to as consumer or personal bankruptcy. Non-business bankruptcy is the discharge of an individual's debts through legal procedure specified in the Federal Bankruptcy Act(*2*). In addition to this federal legislation, each state makes its own regulations pertaining to exemptions, and to wage garnishment and attachment.(*3*)

In very simplified form, a bankruptcy occurs this way: A person is unable to pay his bills, he becomes insolvent. A friend, a fellow worker, an employer, or an attorney may then suggest the possibility of bankruptcy.

Once the bankruptcy is decided upon, three forms must be filled out. This is usually done by an attorney with the help, of course, of the petitioner. Attorney fees for handling a bankruptcy usually run between $150 and $250. The three required forms are *Petition; Statement of Affairs,* a true statement of residence, employment, etc.; and *Schedule of Assets and Liabilities,* a listing of all possessions and debts.

These three forms are filed with the Clerk of a United States District Court for a fee of $50. The Court, which I will refer to as Bankruptcy Court, declares the petitioner bankrupt, and notifies each of his listed creditors of this fact. Each creditor is asked to file a claim for the amount owed him, and is informed of the hearing at which he may question the bankrupt.

Six months are allowed for claims to be submitted to the Court. If a claim is not submitted, the creditor may not receive any money from assets which the petitioner might have available for distribution.

The Referee in Bankruptcy presides at the hearing which is held in a regular courtroom within 30 days of filing. The Referee questions the petitioner about his financial situation and creditors who are present may ask pertinent questions.

At the end of the hearing, which usually lasts 10 to 15 minutes, the Referee appoints a trustee to handle disbursement of any assets such as income tax refunds to creditors. If there are no assets, a trustee may not be appointed.

Six months after filing, the debts of the bankrupt are officially discharged. While he no longer has a legal obligation to repay the debts, the moral obligation does remain. He may reinstate a debt at any time after the hearing simply by making an unconditional promise in writing to the creditor.

Not all debts are dischargeable. Government taxes, debts not listed on the Schedule prepared by the bankrupt, and debts for goods obtained fraudulently are examples. Also, certain exemptions are allowed under state law. In New York State, for instance, wearing apparel, household goods not valued over $1,000, and tools of the trade, may not be sold in order to obtain money to distribute to creditors. In Oregon, television sets are exempted.

Non-business bankruptcy has been increasing yearly. During the 1966 fiscal year, over 175,000 non-business bankruptcy cases were initiated in the United States. This comes to about 9 bankruptcies for every 10,000 people. Over 90 percent of all bankruptcies filed in 1966 were non-business in nature.(*4, 5*)

PROFILE OF A BANKRUPT

Who are the people who must turn to bankruptcy to solve financial crises? What are they like? In an attempt to answer these questions, I will draw mainly on results of my own study, conducted in 1966 in Portland, Oregon(*6*). Where my findings do not appear to be consistent with results from other studies, I will also review the other findings, since studies have been conducted within the past few years in Seattle; Flint, Michigan; in the state of Oregon; and in Sacramento, California.(*7, 8, 9, 10*)

It is unfortunate that results of the comprehensive study recently completed by the Brookings Institution in Washington, D.C. are not available. Indications are, however, that the profiles of the 409 personal bankrupts interviewed in that study do not differ greatly from those in the studies mentioned in this discussion.

Let us now consider a profile of the personal bankruptcy petitioner. As we consider this general description, which is a composite of petitioners in my 1966 study, let us remember that no one person and no one case was average.

- The petitioner was about 28 to 30 years old and married. His wife was somewhat younger, about 25. He had married once, and had been married for about four years. His household included four members, two of whom were children. His family was in the child-bearing stage of the family life cycle. His wife was not employed outside the home during 1965, the year prior to the study. However, if she was employed, she worked full time for two to six months and contributed approximately $650 to the family income.
- The petitioner made no regular support payments to persons outside the home. However, if he did make such payments, they would have been regular child support payments of about $75 per month.
- Both the petitioner and his spouse had completed the 12th grade. He was a machine operator or semi-skilled employee. He had never before filed for bankruptcy. One or more of his creditors had threatened to garnishee his wages during the six months prior to the study, but the creditor had not actually initiated the garnishment proceedings.
- The petitioner attempted to solve his financial problems by several methods before filing a petition. He tried two of the following solutions: contacting his creditors; attempting to refinance contracts; or consulting a debt consolidation agent or agency.
- The petitioner's highest debt level was reached one to two years prior to bankruptcy. He attributed this to overpurchasing or medical expense. When asked to specify the direct influences causing him to file bankruptcy, he gave two answers which included general overload of debt, threatened garnishment, or unemployment.
- The petitioner said he was generally happy in his marriage but that financial problems had adversely affected the happiness of his marriage to a great extent.
- The petitioner and his wife shared responsibility for deciding which bills should be paid and for the actual bill payment.

Because it is the husband and father who usually acts as the family representative in financial matters, the great majority of petitioners in my study were male. However, in non-community property states, the wife may also file. This is done so that she cannot be held responsible for the same debts. When both spouses file, the court often administers them as one case, but they are counted as two in official records. It has been estimated by Edward Reed that about 15 percent of personal bankruptcy filings in 1965 in Oregon were duplicates.(*9*)

OTHER STUDIES

Almost three-fourths of the petitioners in my study were 15 to 34 years of age, while only one-fourth of the total population in Oregon in 1960 was in this age bracket(*11*). Nationally, 1960 Census Bureau figures indicated that the median age of all males over 20 was 40 years. The bankruptcy petitioners appear, on the whole, to be quite young. Bankruptcy attorneys interviewed by Dr. Reed indicated that petitioners seemed to be getting younger each year.(*9*)

Three of every four petitioners (75 percent) in my study were married at the time of the interview. In the Flint, Michigan study 94 percent of the petitioners were married—a much higher proportion(*8*). About one in five (20 percent) were either separated or divorced in my study. In 1960, only about one in ten adults in Oregon was in these categories(*11*). However, other studies support the conclusion that a general history of family instability is an identifiable characteristics.(*7, 8, 10, 12*)

Of those petitioners married at the time of my study, two out of four had been married less than five years, and three out of four less than ten years. It follows that about 70 percent of the bankrupt families were in the child-bearing or child-rearing stages of the family life cycle. We are all aware of the costs involved in the early years of married life.

Family size in my sample was similar to the 1963 total United States family size; that is, four members per family(*13*). Other research has found petitioner families to be significantly larger than the norm. The Seattle and Flint studies concluded that petitioner families were larger than average, and that this could be a contributing factor to family insolvency leading to bankruptcy.(*7, 8*)

About half of the petitioners and spouses had graduated from high school. About 10 percent had attended one or more years of college. The Flint, Michigan study did not indicate such a high educational level. The difference in community population is probably the reason for this difference.

While almost nine out of ten petitioners in my study were employed at the time of the interview, over half of them indicated a period of unemployment during 1965. This is probably a more significant characteristic than studies indicate.

About one petitioner in ten had filed for bankruptcy before (one can file no oftener than every six years). This number of repeaters is somewhat higher than the Seattle and Oregon studies indicated.(*7, 9*)

GARNISHMENT AND BANKRUPTCY

Garnishment and threat thereof has been the subject of much debate, past and present. Is garnishment the triggering cause of bankruptcy? If it is, will doing away with garnishment eliminate family financial problems? These questions are yet to be answered.

In my study I found that three out of five petitioners had had at least one wage garnishment threatened, and that only one out of five had actually had wages garnished in the six months prior to filing. In the Seattle study about two out of five had had wages garnished(*7*). It logically follows that states allowing a high percent of a wage earner's pay to be garnished have a higher proportion of personal bankruptcy cases than other states.(*3*)

SOCIAL CHARACTERISTICS

The remainder of this discussion is based on my own study. Unfortunately, there are no similar studies with which to compare these results. The questions and answers were subjective, but they may give some insight into family financial management practices.

Petitioners were asked how they had tried to resolve their money problems before they filed bankruptcy. A very small number said they hadn't tried anything, feeling it was just no use. The most frequent answer was "We went to see Mr. X (a creditor) but he couldn't help us." The least popular solution was selling some of the goods they had purchased; perhaps this couldn't work because the goods were necessities or wouldn't bring enough money if sold. Others tried debt consolidation firms, prorators, and filing Chapter XIII bankruptcy. There was some indication that petitioners with higher educational levels tried more ways of solving their financial problems; it could be they were just more willing to talk about them.

The petitioners were then asked why they had so much debt. One out of four recognized the purchase of too many consumer goods, only some of which were necessary. Those who mentioned medical expenses usually referred either to the cost of having a baby, or to illness or accident of some family member.

In the Oregon studies, both Dr. Reed and I found that in about 12 percent of personal bankruptcy cases the petitioner had been in business during the six years prior to filing.(*6, 9*)

A surprising number of petitioners cited their spouses as the reason for high debt levels: "I gave my wife money to pay the bills, and she didn't," or "I cosigned on a loan for my ex-wife and she didn't pay up."

Most of the petitioners said it was a combination of factors that caused them to file bankruptcy. If it were possible to delve into the past, I believe we would find that most petitioners carried installment obligations that left them no room to maneuver. Then, when an unplanned expense came up—an auto accident, a broken arm, or in some cases the arrival of a baby—they could not handle the additional costs.

The petitioners were asked whether they thought their money problems could have been prevented in any way; and if so, how? I fully expected answers indicating insufficient income. However, three out of four said their financial problems could have been avoided by better financial management or by avoidance of credit. Those who said they could not have prevented the financial crises gave answers such as insufficient income, accident, business slump, etc. The high proportion indicating that they could have avoided bankruptcy might mean that they actually did have some knowledge of financial management, but didn't know how to apply it, or that they didn't have the self-discipline to deny themselves some of their wants.

There is some indication that families had greater debt where both husband and wife had responsibility for paying the bills. Perhaps this is tied in with the fact that there are fewer defined roles in families today.

FINANCIAL CHARACTERISTICS

The financial characteristics of the median petitioner in my study showed that he had an income of $4,000 to $5,000 during the year prior to filing bankruptcy. He owed about $4800 to 16 or 20 creditors.

Debts and creditors were classified according to whether they were secured or unsecured. (A secured creditor holds a contract for goods or services purchased, with other assets listed as security in case of non-payment. For instance, when installment credit is used to buy a washing machine, one's automobile might be used as collateral. Unsecured credit includes such things as utilities and medical expenses for which one is normally billed at the end of the month, and regular charge accounts.)

Less than half (45 percent) of the total debt was owed to a very small portion (4 percent) of secured creditors. The remaining 55 percent of the debt was owed to unsecured creditors who comprised the great majority of total creditors. It is also interesting to note that about one-fourth of the debt was no longer due the original creditor, but was due a collection agency who had taken over the delinquent account.

The median petitioner owed substantial debt in several creditor classifications: automobile; auto repair and garage; appliances; medical; and utilities. The highest percentage of his total debt was due automobile creditors and the second highest was due hospitals and doctors for medical expenses.

Debts in most cases were equal to, or more than, the previous year's income. The fact that, in a majority of cases, over half of the total debt was held by a relatively small number of creditors holding secured contracts indicates the large role credit plays in the financial life of families in debt.

It is not clear from present studies what proportion of petitioners have poverty level incomes, that is, income of under $3,000 per year, but estimates range from about 10 to 40 percent of all petitioners. However, in my study we found that the higher the family income, the higher the family debt. Debt was also related to the age of the petitioner, the size of his family, and the stage in his family life cycle.

Family income appeared to be highest when the spouse worked part time outside the home. On the other hand, family debt tended to be highest when the spouse was employed full time. High income and high debt appeared to be characteristic of petitioners who shared responsibility for bill payment with their spouse. Low income and low debt seemed to be characteristic of families where the husband alone was responsible for bill payment.

Petitioners who mostly agreed with their spouses in regard to expenditures tended to have higher debt levels than those who indicated general disagreement. Huber, in his study of over-extended families, suggested similar implications.(*14*)

From my observations and interviews with bankruptcy petitioners, I would make the following conclusions.

Petitioners, on the whole, are not trying to "take" anyone. They are in the Bankruptcy Court because there is no other way out of their financial dilemma. Crucial problems for the bankrupt seem to be a lack of any orientation toward the future, and the inability to identify financial danger signals and know what to do about them.

Educators and persons interested in the well-being of the family all have a great challenge. In today's sophisticated society, we don't wait for those who can't keep up. Education for the financial aspect of family life is of greatest importance. I look forward to the day when there are no personal bankruptcies, not because garnishment will have been eliminated, but because all individuals and families know how to successfully manage their money and their credit.

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A NEIGHBORHOOD LAWYER'S APPROACH TO THE PROBLEMS OF CONSUMER CREDIT

J. KIRKWOOD WHITE

Various groups within our society adopt different means to draw public attention to their problems. In the summer of 1967 a few residents of urban ghettoes chose violence as a vehicle for broadcasting grievances. They were trying to say something about the conditions under which they live.

In the many cities where rioting occurred, there was much looting of stores. Many looters who were interviewed by news media are said to have expressed anger against store owners for abusive credit practices and shoddy merchandise. We are aware that looting of stores often accompanies social and civil disorder and it is safe to say that the motive of most looters was acquisitive rather than punitive. But we do get another clear message from the rioters and looters: that the resident of the urban slum is tired of being cheated in the marketplace. He knows he is being sold merchandise at inflated prices and excessive credit costs.

Fortunately, most victimized consumers do not resort to arson and looting. Nevertheless, we should not lose sight of the fact that the cry "burn, baby, burn!" is being directed at the slum merchants. The injustices are now obvious and it remains to be seen how responsible businessmen, city officials, and state legislatures will respond to the outcry for reform.

In Washington, D.C., a voteless but politically conscious city, the former District Commissioners responded to the threat of violence by calling upon the Washington Metropolitan Board of Trade and the Better Business Bureau to conduct a study of retail sales and credit practices in low-income areas of the city. It is unfortunate that reform in some places only follows the threat of violence; but at least a start has been made in our capital city.

As a neighborhood lawyer in Washington, I have daily contact with poor residents who, as consumers, are confronted with the whole range of inequalities in our current system of the sale of goods. There are a number of crucial issues in consumer credit law involving these low-income consumers. For example, no retail installment sales legislation exists in the District of Columbia to protect buyers of consumer goods other than automobiles. Therefore, I will relate my comments to the framework of legal protections that I would like to see Congress enact in its capacity as the creator of law for the District.

LEGAL PROTECTION NECESSARY

When I first began working as a neighborhood lawyer, I was amazed by the obvious intention of certain merchants in low-income areas of Washington to prey upon the lack of education, sophistication, and business experience of their customers. Recent arrivals from the rural South are the most susceptible to deceptive practices. Unfortunately, these same people are often the most forgiving of merchant rapaciousness.

For example, a man with a wage attachment came to my office at the request of his employer who had taken a special interest in his case. (The client himself was not very concerned about the attachment because he did not want to make trouble for anyone.) I asked him who was attaching his salary, and he indicated that it was a local clothing company. He recalled being in the store around Christmas time about six years ago. At that time he expressed interest in a suit of clothes for his son, put $5 down on the purchase, but later decided against buying the suit and never returned to the store.

I checked the court records on this case and discovered that one year after he had been in the store a court judgment was entered against him by default. Over the years several efforts had been made to attach his wages but because of his marginal training and skills he had worked only a short period of time for successive employers. The price of the suit of clothes had been $55. When court costs and interest from the date of judgment to the date of attachment (a period of six years) were added to the sales price, the amount of money to be collected from the client's salary came to $132. The collection attorney stood fast by the bill of sale and refused to drop the suit. I filed a motion to vacate the default judgment and argued that the man had never been served with process thereby rendering the judgment void. The court granted my motion and the money that had been withheld from his salary was returned.

This case illustrates several difficulties:

1. The goods were over-priced in the first place;
2. The suit was probably not intended to last more than one school year;
3. A member of the Bar took this case to court to collect on "contract" for which absolutely no value had been received by the purchaser;
4. The court granted judgment although it was quite clear that the defendant had never been personally served with the complaint;
5. The individual who was victimized was afraid to do anything about it on his own for fear that this would cause trouble for him.

With respect to such cases, neighborhood lawyers must be concerned with legal protections for the poor man as an economic entity. These legal protections are not conceived as methods to insulate the poor, or to create a special market place for the disadvantaged; rather, they can be used to develop an environment of independence within which the poor, as they gain education and affluence, can receive fair treatment when they buy merchandise and services. The following protections must be available in every step of a consumer transaction:

1. Restrictions on advertising to prevent consumer deception;
2. Disclosure of price, quality, and credit costs of goods for sale;
3. Prohibition of unconscionable and deceptive contract terms;
4. Protection in case of default and repossession;
5. Regulation of collection and court processes including the enforcement of court judgments; and
6. Private and public remedies to enforce compliance with statutes and regulations governing consumer credit transactions.

In all of these areas, the laws of consumer credit need reform. Some states have enacted reforms in piecemeal fashion, starting with regulation of loan sharks and small loan companies. This approach leaves gaps in legal protection.

Another approach is an omnibus consumer credit regulatory bill. The National Conference of Commissioners on Uniform State Laws is currently at work on a Uniform Consumer Credit Code which will regulate both loan and purchase credit from disclosure to contract enforcement. An omnibus bill passed by Congress could close the gaps in the District of Columbia.

Such a bill could also handle problems that arise with the debt consolidation business. In my opinion, this business is fraudulent and should be banned. Debt consolidators offer to help people get out of debt, without harrassment by creditors, through one monthly payment to the debt consolidation company. If this were a bona fide offer of financial counseling and assistance for a fee, I would have no quarrel with the business. But what in fact happens is that the consolidator takes his fee out of the debtor's first payments, does not pay creditors, and the debtor continues to be harrassed. The creditors tell the debtor that they will deal only with him so he resumes his own payments and drops the consolidator. In the meanwhile, the consolidator gets a fee for doing nothing. A bill to ban the debt consolidation business in the District of Columbia has been introduced in Congress. This bill has the support of major business groups and the District Government.

ADVERTISING

False, misleading, and deceptive advertising of consumer goods and services can be enjoined by the Federal Trade Commission under federal legislation. While the FTC has full authority to act within the District of Columbia, it is an agency with nationwide responsibilities and is not equipped to deal with purely local cases of consumer deception. Consequently, enforcement of existing laws against these practices in Washington has not been effective. In order to remedy this situation, Congress should authorize the government of the District of Columbia to define and prohibit false, misleading, and deceptive advertisements relating to quality, quantity, price, finance charge or rate, or other terms relative to the sale of consumer goods and services.

With this authority, the District Government would be able to stop unfair and deceptive sales practices, such as the "bait-and-switch" technique, that lead low-income consumers to purchase over-priced, low-quality merchandise. In particular, effective policing of sale procedures should stop the sale of used and repossessed merchandise as brand-new. Theoretically, this practice is already illegal as a fraudulent sale. But, as most neighborhood lawyers know, it takes months of interrogatories, motions, and a favorable jury to establish a good case of consumer fraud entitling the client to a recission of the contract and punitive and compensatory damages.

As a general comment, I firmly believe that consumer protection laws that do not include vigorous enforcement provisions are useless. The low-income consumer is in no position to go to court on his own to effect his rights. Neighborhood law offices can help but cannot carry the whole job of keeping the merchants honest.

DISCLOSURE

From the point of view of the buyer, the most important phase of a consumer credit transaction is the negotiation stage in which the seller offers goods and services and the buyer decides whether to buy. In order to make intelligent use of his financial resources, a prospective buyer needs to know several facts before he makes his purchase. First, he needs a full description of the goods and their cash price. Next, if he is financing his purchase, he needs to know the terms of credit including the amount of any required down payment, the amount and number of periodic payments, the finance charge expressed in dollars and as an annual percentage rate, and, finally, the costs of all incidental charges, individually itemized and described. The incidental charge category would include taxes, fees for recording a security interest, and the cost of insurance.

It is essential for the consumer to know both the dollar cost of the finance charge and the finance charge expressed as an annual percentage rate. The critical issue in the federal truth-in-lending legislation is the requirement that all creditors state an annual percentage rate of finance charge based on the actuarial method. This method requires disclosure of a rate of finance charge which takes into account the fact that installment transactions are paid back over a period of time. Except for credit unions, the percentage figures presently disclosed by financial institutions do not take into account the repayment terms of installment transactions and, accordingly, the rates disclosed understate the true cost of credit to the consumer.

Critics of truth-in-lending acknowledge the need for dollar disclosure, but argue that the actual rate is difficult to determine and is of no use to the consumer. The recent Congressional truth-in-lending hearings indicate that simplified methods for annual rate disclosure under the actuarial method can be used, and tables can be devised to permit the creditor to disclose the finance charge on an annual percentage basis without difficult mathematical computations. The argument that annual rate disclosure is useless to consumers reflects a cynical view of the consumer's mental abilities. The argument in favor of rate disclosure can be simply stated: Consumers can make intelligent credit choices if they are presented with rate figures calculated on a uniform basis. If a man's savings earn 4½ percent at the bank and the same bank tells him that on his 12-month consumer loan he will pay interest at the rate of 6 percent (add-on), he is being deceived because the comparable rate is approximately 11.5 percent.

The opponents of truth-in-lending also argue that percentage rate disclosure will mislead the poor consumer. They contend that he is only interested in how much money he must put down, and how much he must pay each week or month. To the wage earner these facts are certainly essential, but as a neighborhood lawyer, I have yet to speak with a client who is totally unaware of percentage rates. I make it a practice to figure out for each client what he is paying on a credit transaction in terms of the actuarial rate. The usual response is one of amazement and anger that this rate was not disclosed initially. Opponents also argue that if the true rate were disclosed the poor could get no credit. I do not understand this argument, given the fact that merchants want to make money and that consumers, whether poor or rich, need to buy goods and services.

Another problem area of credit disclosure is the problem of absorption of credit costs by merchants. Cash buyers are offered one price and time buyers are offered a substantially higher price. Theoretically, no finance charges are imposed on the time buyer. Because a time price does not permit a buyer to compare costs, all sellers should be required to disclose the actual cash price—the price of goods and services which are offered for sale by the seller to cash buyers in the ordinary course of business. The amount by which a price quoted to a credit buyer exceeds this cash price is deemed to be a finance charge. Also, enforcing a retail installment contract which a buyer signs before all of the blanks are filled in should be restricted.

Under certain circumstances, legislation should permit a buyer to cancel a contract for the purchase of consumer goods. The right to cancel should remain open if the seller fails to provide the buyer with a completely filled-in copy of the contract. Initial disclosure must also include a notice to the buyer of his rights concerning prepayment, redemption of repossessed property, and the fact that the seller has no right to unlawfully enter a buyer's premises or use force or breach of peace in order to repossess goods purchased under the contract.

I am currently handling two cases that illustrate the need for regulation of consumer advertising to prevent deception and the need for full disclosure of contract terms. Both clients heard a radio advertisement offering a special reduced price of $98 on a name-brand television set with a 10-day free home demonstration. The clients called the store and the sets were delivered, but they were not the sets that were advertised. The salesman disparaged the advertised sets and told the clients that the delivered sets, although listing at $195, would give better service. The salesman requested a non-refundable $25 "delivery" fee.

Both clients decided to keep the sets and another salesman brought contracts to their homes for signature. The only figure listed was the price, $195. The salesman said the clients could pay $16 per month. No mention was made of a finance charge or additional fees. Three days later both clients received payment books from a local finance company with 24 monthly payment slips at $16.50 each—a total of $396. Neither client added up the slips until after making several payments. Then both clients (they do not know each other) added up the payments they had made and decided to pay only a total of $195.

Within several weeks the finance company filed suit for the balance due and judgment for default was obtained. Wage garnishment proceedings were initiated and both clients, neither of whom had received notice of the law suits until so advised by their employers, came to the neighborhood law office.

The cases are still in litigation. The issues are misrepresentation, fraud, void contract, lack of holder-in-due-course status, and violation of a Federal Trade Commission cease and desist order. All of this could have been avoided by full disclosure both in advertising and in the contract of the price of the television set and the costs of a credit purchase. As it was, the exorbitant finance charges were completely hidden until the installment contract and note were signed. In accordance with present law, the finance company in these cases sits comfortably behind the legal doctrine that a holder of a note negotiated in the ordinary course of business is free from defenses that the buyer has against the seller.

REGULATION OF CONTRACT TERMS

The buyer must be protected against unfair contract clauses. The trend in recent state consumer credit legislation is to prohibit certain "small-print" contract clauses: waiver of buyer's rights under existing laws, balloon installments, disclaimer of warranties, confession of judgment, clauses granting the seller a power of attorney for collection and repossession, clauses waiving a buyer's defenses against an assignee, clauses waiving the buyer's right of action for illegalities in collection and repossession, and clauses permitting acceleration of contract for reasons other than a default in payment or performance by the buyer.

In addition, legislation must provide a solution to a problem which was recently before the United States Court of Appeals for the District of Columbia in the case of *Williams v. Walker Thomas Furniture Company*. This case involves an add-on type of purchase contract under which the buyer added furniture purchases to her contract and made one monthly payment. The contract provided for an allocation of the monthly payment to all of the outstanding unpaid balances for furniture purchased. The furniture store retained a security interest in all of the goods sold.

The buyer defaulted and the store repossessed all of the furniture the buyer had purchased over a period of two years, even though the balance due on her contract was only $100 on a total bill of $1500. The Court of Appeals held that this type of installment contract was unconscionable. Under this contract, the seller was not required to apply current payments to past purchases in order to release the seller's security interest on these purchases. The result was that with the buyer barely in default, the seller could repossess a whole house full of furniture.

In order to meet this problem, new legislation could provide that consumer goods which are the subject of a retail installment contract shall serve as security only for the obligation arising out of the sale of those goods. Newly acquired goods cannot be made to secure any past or future obligation of the buyer to the seller, or to the seller's assignee.

The television purchase cases mentioned above in connection with the disclosure of contract terms also identify another problem; namely, the holder-in-due-course principle under which defenses and actions against a seller are cut off by negotiation of the installment contract and note to a third party, usually a finance company. Under this doctrine, the buyer has a financial obligation to the holder of the note, whether or not the contract with the seller was fraudulent, or the goods not what they were represented to be by the seller.

In my opinion, the holder-in-due-course principle makes no sense in the consumer sales field. The theory behind the doctrine is that merchants who cannot carry their credit customers ought to be able to negotiate their installment contracts to finance companies without limitation. In order to provide a viable market for consumer paper, the doctrine assures finance companies that consumer notes can be enforced against obligors, free and clear from all defenses and rights of action against sellers.

It is no secret that transfers of consumer paper between retail merchants and finance companies are often not arms-length business transactions. Sometimes, a retail seller and a finance company will have identical owners, officers, and directors. In view of this close business relationship, it is unlikely that such a finance company would be unaware of the seller's illegal retail practices. Accordingly, it is unfair to retail buyers to permit finance companies to hide behind the holder-in-due-course doctrine.

To protect buyers against the holder-in-due-course doctrine legislation should declare as void and unenforceable any instrument payable to order or to bearer which, when negotiated, will cut off, as against third parties, any right of action or defense the buyer may have against the seller. This would end the practice of certain retail merchants who require the execution of a note by the buyer in addition to a retail installment contract. Defenses and rights of action which the buyer may have against the seller would be good against the holder of a retail installment sales contract.

In arriving at this proposal, I rejected an alternative solution which would provide that anyone who takes a retail installment sales note cannot enforce it as a holder in due course, unless the retail installment contract is accompanied by the buyer's certification that he has received the goods purchased and that they appear to conform to the contract. Under this alternative solution, the buyer's certificate, once signed, entitles a finance company or other holder to the privileged status that it now enjoys as a holder in due course. I do not believe that the prohibition of consumer notes payable to order or bearer would limit a seller's ability to obtain financing, since the installment contract itself is assignable. With this provision, the risk of a seller's insolvency, or his unlawful sales practices, shifts from the buyer to the finance company, which is in a better position to bear the risk.

DEFAULT AND REPOSSESSION

The major strength of the common law is its adaptability to changes in the way people live and deal with one another. The law of contracts is flexible enough to permit the adaptation of commercial legal documents to prevailing business practices and the needs of society. The conditional sales contract and time purchase grew up in response to the desire of wage earners to purchase goods necessary for their homes before accumulating the required cash price. The conditional sales contract gives the seller a security interest in the goods sold, entitling him to retake the property in the case of the buyer's default, to dispose of it, and apply the balance to the contract price.

The current system of repossession after default fails to give reasonable protection to the buyer's equity in rapidly depreciating consumer goods. Apart from automobiles, most consumer goods depreciate in value immediately after their sale and give little return following repossession. Often the defaulting buyer is faced with liability for a deficiency that equals, or possibly exceeds, the amount of the unpaid balance at the time of default. Also, the buyer has nothing to show for the money he laid out for the goods that were repossessed. In this regard, the common law has not kept up with the times.

Legislation can provide a simple solution to this problem. The secured seller may elect one of two remedies if the buyer defaults. He can either retake the property or sue on the contract for the balance due. If he repossesses the property, he is prohibited from obtaining a deficiency judgment. This provision would curtail the resale of repossessed property and would, thereby, cut into the seller's profit, but it should have no effect on his ability to collect the balance due under a contract of sale. The average defaulting buyer is much more likely to settle up on his debts if he is permitted to retain what he is paying for.

I recently undertook to represent a man who exemplifies the buyer's frustration at repossession. Several months ago the client purchased a used 1966 automobile for $2700. He paid $400 down and traded in a 1962 automobile valued at $200, which left a balance of $2100. He made four monthly payments on time and then missed work for three days. He called the finance company saying that he would be late with his fifth payment and a secretary gave him an oral extension of four days. On the fourth day he went out to get into his car to make the payment and found that had been taken way. He called the finance company and was told that if he paid a $50 repossession cost, a $12.50 storage fee, and a $14 late fee he could regain possession of his car. He got so mad that the told the finance company to forget it.

The company did not forget it. It went to court two or three months later and obtained a default judgment in the amount of $1900. Shortly after repossession, the same car appeared on the same used car lot for sale at $2600. Apparently, the retail sales market for used cars was soft on the day that the finance company sold the car to that lot because it brought only $200.

This case illustrates the problem of unregulated or poorly regulated resale of repossessed property in the District of Columbia. To remedy this problem, the District Government should be authorized to issue rules and regulations governing the procedures for resale. To induce the secured party to notify the buyer of his intention to repossess, legislation should permit the secured party to apply the proceeds of repossessed property to the payment of actual and reasonable expenses incurred in the repossession and sale thereof *only* if the secured party gives the buyer at least 14 days prior notice of his intention to repossess. In no case should a secured party proceed to sell repossessed goods unless he has notified the buyer, immediately after repossession, that he has 15 days within which to redeem the goods by paying the amount of the contract in full. A seller who disposes of repossessed goods without this 15-day notice would be liable for conversion. Such legislation should also prohibit a secured party from using force or engaging in a breach of peace in order to repossess property from the buyer.

In legislation on repossession it may be advisable to prohibit private sale of repossessed property and to authorize a public official to make such sales in order to prevent fraud in repossession and resale. The purpose of such a provision would be to eliminate the type of non-competitive resale practices presently followed in most jurisdictions. Sale by a public official would also obviate the need to charge excessive costs against the buyer for retaking the property and preparing it for resale.

PAYMENT AND COLLECTION

After a buyer signs a contract and receives his goods, he needs legal protection until the obligation is paid off. I have seen many cases where the buyer made payments to a seller for several months and later received a bill from a collection agency which did not take into account these payments.

This problem often arises when the seller goes out of business and assigns his accounts and installment contracts to a collection agency. The buyer may have a difficult time proving payments to the seller when the seller denies he has received them. To meet this problem, legislation should provide that unless the buyer has written notice of actual or intended assignment of a retail installment contract, he may pay or tender any amount due thereunder to the person last known to be entitled to payment, and such payment should be binding upon any subsequent assignee. In addition, legislation should require the person receiving cash payments to give the buyer a complete written receipt.

To protect the buyer against bad bookkeeping practices of sellers District legislation should follow the new Massachusetts consumer credit sales act. This act requires the seller or his assignee to send the buyer, upon request and within six months after the execution of a retail installment contract, a statement of account listing the amounts paid by the buyer, refunds, late fees, and the amount due on the date of the report, including the number and amount of installments not due but still to be paid. There should also be a provision on payment in full before maturity which includes a refund of unearned finance and insurance charges.

With respect to collection charges, legislation should prohibit all such charges, except for a reasonable attorney fee not to exceed 10 percent of the unpaid balance and court costs. Although existing state legislation in the consumer credit field does not deal with the process of collecting delinquent consumer credit accounts, an omnibus consumer credit bill should reform the law.

My first concern relates to co-signers on consumer credit contracts. Many poor people do not have sufficient creditworthiness to obtain goods on their signature alone. They must therefore provide the seller with a co-signer. Since the need for co-signers is a fact of life, I do not question the seller's right to request one. At the same time, many people who act as co-signers are not aware of the liability that attaches to a signature. The principal obligor may default and the seller may seek to collect from the co-signer.

This is a problem of disclosure. Sellers should be required to include in all conditional sales contracts a statement explaining to the co-signer that if the principal obligor defaults, the co-signer will be liable for the amount due. It might also be advisable to require the seller to exhaust his remedies against the principal obligor before seeking to collect from the co-signer. I have noticed that in the case of a husband and wife who co-sign for goods and then separate, when the husband works for the federal government where his salary cannot be reached, sellers will often sue the wife first if she works in private industry where her salary can be subject to garnishment. For obvious reasons, this collection tactic is grossly unfair.

Another problem requiring reform relates to the collection of delinquent accounts by collection agencies. Many collection agencies in the District of Columbia use collection tactics which, in my opinion, grossly exceed reasonable limits. I do not deny that a collection agent has the right to use certain "scare" tactics to obtain payment from recalcitrant debtors. A reasonable scare tactic would include advising the debtor that court action can and will be taken if the account is not paid off within a reasonable period. The collector can state that court action may result in a wage garnishment. On the other hand, I believe that it is an invasion of privacy for a collector to exert pressure on a debtor on the job, or by contacting his supervisor.

The major employer of low-income workers in Washington is the federal government. The personnel rules of the government include a requirement that all employees make reasonable efforts to pay just debts, or be subject to possible adverse personnel action. While creditors know that they cannot attach a federal employee's salary, they also know that significant pressure can be brought through the debtor's personnel office. Thus, they deluge personnel offices with telephone calls and letters which often cause an employee to lose his job. Perhaps legislation could be enacted that would prohibit collection through channels other than direct approaches to the debtor. In any case, collection tactics merit the attention of attorneys and others interested in fair treatment of debtors.

ENFORCEMENT OF CREDIT LEGISLATION

Consumer credit legislation should follow President Theodore Roosevelt's advice to "walk softly and carry a big stick." Without strict and effective enforcement procedures, consumer credit legislation is worthless. We all know that the only way to get some people to stop violating the law is to hit them where it hurts: in the pocketbook.

A Washington merchant who sells mattresses was placed under a Federal Trade Commission Consent Order in 1966 which forbids him from representing his mattresses as custom-built and specially designed for orthopedic purposes. I later learned from two clients that this merchant was still engaged in forbidden sales practices during 1967. I called the merchant to obtain a partial refund of the exorbitant sales price of the mattresses and I referred to the FTC Consent Order. The merchant offered the excuse that it was taking him quite some time to change his sales procedures. He said that he was not terribly concerned about the FTC because he had merely signed a consent order. Apparently, he did not really consent to stop the illegal practices. When I could not get satisfaction for my clients over the telephone, I wrote him a letter and sent a copy to the FTC. The merchant called me and strongly criticized me for what I had done. This may have been a tactical error on my part because I did not get any money for the clients.

Effective enforcement of consumer credit legislation requires both public and private remedies. The injured buyer must be given affirmative remedies in court to collect damages. Local government authorities must be authorized to enforce legislation by injunction against illegal practices and through civil monetary penalties. In addition, it makes sense to authorize injured private parties to bring actions to enjoin illegal sales practices. This type of enforcement procedure would be necessary where the local enforcement agency is either unable or unwilling to seek injunctions.

With respect to private remedies, legislation should bar a seller or his assignee from the recovery of any sort of finance charge (delinquency, collection, extension, or refinance charge) imposed in connection with a retail installment contract or extension agreement which violates the provisions regarding disclosure, maximum finance charges, and prohibited contract clauses. In addition, the buyer should be given the right to recover from the seller, or any person who acquires a contract with knowledge of non-compliance, a sum equal to the amount of any finance charge imposed by the contract, plus 10 percent of the principal amount of the debt.

For illegalities in connection with repossession, legislation should subject the secured party to a penalty in the amount of 50 percent of the fair market value of the goods at the time of repossession. If the secured party in a repossession fails to comply resale procedures and misapplies the proceeds, he should be liable to the buyer for any loss for such non-compliance, or a penalty of $500, whichever sum is larger. It should further be provided that these remedies are in addition to any remedies the buyer may be entitled to under existing law, including an action for actual damages as a result of a violation of the act.

To achieve public enforcement, legislation should authorize the government of the District of Columbia to create a new office of consumer protection. That office should have the authority to receive complaints, hold hearings, and issue subpoenas. The strongest remedy should be contained in a provision authorizing injunctions restraining persons from engaging in violations of the legislation and regulations issued thereunder, or engaging in a course of unconscionable or fraudulent conduct in connection with the making or enforcing of retail installment contracts. This injunctive power should be available in the case of actual or threatened violations, or of conduct of an unconscionable or fraudulent nature. An effective enforcement provision should establish a civil penalty not exceeding $5000 for any person who engages in a course of repeated and willful violation of the act or regulations issued thereunder.

To promote consumer education, legislation could authorize the District government to conduct studies, investigations, and research into retail installment sales and to conduct programs to educate the general public on their rights and duties under the legislation. The District could be further authorized to assist merchants to understand the bill and to issue rules and guidelines respecting disclosure and the format of consumer contracts. With this kind of enforcement authority, the District Government should be able to provide the consumer with adequate protection and at the same time insure all merchants fair and equal treatment.

CONCLUSION

There is much opposition to strong consumer credit reform. Many people hate to see complicated legislation interfering with the simple and unaffected relationship between the store and the customer. The picture is one of economic bliss—Laboring Smith with eight children pays a dollar down and a dollar a week to get blankets for the kids from Friendly Sam's, the local general store. Sam knows Smith personally and will wait till the cows come home for his money.

Unfortunately, this picture is out of date in our increasingly impersonal and bureaucratic urban society. In the big city, the sales game is played according to different rules. Laboring Smith oversells his creditworthiness and Friendly Sam doubles the price of his blankets. We know that by the law of averages Smith's and Sam's little deceptions will sometimes balance out. Nevertheless, because urban dwellers march to an impersonal tune, we must develop impersonal rules to achieve our still very personal American goal of equal justice and fair play.

PROBLEM USERS OF CONSUMER CREDIT AS SEEN BY A CASEWORKER

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I am a caseworker in the areas of financial counseling, money management, family budgeting, and debt adjustment in conjunction with family and marital counseling. My employer, The Family Service of St. Paul, has a professional staff of 25 social workers, and of this number, 5 specialize in money management and financial problems. Our agency is among more than 300 such agencies in the United States offering service in debt counseling and budgeting.

Indebtedness constitutes one of the more frequent problems encountered in Family Service, particularly in association with other types of family disturbances. Because of these multiple associations, it is difficult to estimate exactly what percentage of casework does involve money management.

Who refers families to our social agency? It may be on the advice of an employer who becomes aware of the financial problems of an employee through garnishments or pressures from creditors. It could be a minister, a friend, or relative. Attorneys, credit unions, and creditors may advise families to seek help when payments become delinquent.

Generally, we refer families and individuals with no income, or less than minimal earnings for subsistence, to their local County Welfare Department for financial relief or supplementation. But what of the families that have an income but have gotten into financial difficulty in relation to budgeting, buymanship, or credit? Our goal is to help them get out of debt and, at the same time, teach them to handle their finances and gain an understanding of their "needs" as opposed to their "wants."

In Family Service we counsel individuals, conduct joint interviews with husband and wife or total families, or organize group counseling for husbands and wives. These groups consist of three or four couples discussing the meaning of budgeting, money, indebtedness, and joint responsibility for financial management.

In casework, we are dealing with the socio-psychological aspects of credit addiction. According to Dorothy L. Book, Boston College School of Social Work, emotional, social, and economic problems cannot be separated. In practice, there are some problems of insufficient income and money mismanagement, but there are more problems of indebtedness.

Since indebtedness is subject to such a wide variety of causes outside the individual's control, statistics could give a very misleading picture of its frequency. For example, current employment and similar economic trends greatly affect frequency of indebtedness. However, we have been impressed with how often indebtedness has been an aggravating factor in family relationships and a symptom of underlying emotional factors in the individual's or family's makeup. The latter situation will be more frequently encountered in casework than transient external circumstances which foster indebtedness.

In Family Service we meet all degrees of financial involvement. Even a relatively small debt may be magnified by the client's anxiety about it. On the other hand, there are those who show no apparent concern over great debt problems. At the other extreme, hoarding assets to an excessive degree may be equally indicative of a fundamental disturbance in the individual.

For our purposes, indebtedness may be defined as a state of financial decompensation which, for a particular family, requires professional help for its stabilization. The degree of indebtedness may vary according to the total material, personality, assets, and liabilities of the family and must be judged accordingly. The causes may range from temporary external circumstances outside of individual control, to the most serious personality disturbances. Accordingly, the case study and diagnosis should merit whatever amount of detail necessary to give a clear picture of the causative factors involved.

LOOKING FOR HELP

The sequence of events which brings a family or individual to a social agency may often be these: (1) personal sources of funds have been exhausted; (2) commercial loan organizations may have been used; (3) if the debts are too great, more debts have been incurred; (4) garnishments or the threat of job loss results. These measures have not corrected the basic causes of the indebtedness. When one sees the names of many loan companies among the creditors, the indebtedness problem is apt to be serious since it usually indicates personal loss of control over the problem. As Dickens put it, "One man who can't pay asks another who can't pay to certify that he can pay."

Indebtedness is less serious where an individual voluntarily realizes that he is decompensating financially and seeks professional help as a preventive measure. When the problems are studied in detail, we frequently find the indebtedness to be only one expression of a family or personality disorder which must be evaluated in order to treat the symptom properly. It's like a physical illness in which a cough in itself may be a symptom of a cold, bronchitis, pneumonia, or tuberculosis.

Similarly, we may find indebtedness to be only a superficial symptom of almost any known personality disorder, and it is reasonable to expect that in our culture where financial status is a symbol for security, this would often be the case. Accordingly, we may find indebtedness when the total efficiency of the individual is impaired from internal or external pressures.

INDEBTEDNESS AS A DEFENSE

The function of indebtedness as a defense mechanism will be found to vary according to the nature of the personality disorder. In a mentally deficient individual, we easily see how indebtedness can be incurred by his lack of judgment, his greater susceptibility to high pressure ads or salesmen, and the possibility of his being used by other individuals for their gain. A megalomaniac individual may precipitate himself into great debt rapidly during a period in which financial or material gains temporarily gratify his delusions of grandeur or power.

In the case of paranoid states, indebtedness may represent a means by which the individual obtains revenge against fancied persecution; or it may occasionally represent a premonitory symptom at a time when he is striving for affection and security by buying large quantities of gifts for others. At times, indebtedness may be incurred in depressed individuals where withdrawal from normal activities induces accumulation of obligations he could ordinarily handle. This picture frequently arises also in the schizophrenic state, where withdrawal from reality is a paramount feature. Indebtedness is also frequent in pathologic personalities and in alcoholics, according to what extent immediate gratification of wants is satisfied by financial means.

On a numerical basis, we will more frequently find some variety of a neurosis to be fundamentally active in indebtedness. Because of the neurotic's greater ability to deal with reality, his indebtedness occurs in a more subtle and often insidious manner than exists in the aforementioned psychotic types.

When an entire family is included in the picture, the ramifications of the effects of indebtedness become far more formidable because of the emotional factors affecting their collective sense of security. Economic deprivation is a very potent threat to the correct channeling of emotional maturity.

Thus for an individual, indebtedness may represent a compromise fulfillment of needs which may arise within himself or come from pressures in his environment. For example:

1. Indebtedness can involve the substitution of a tangible source of anxiety for an intangible source, i.e., an individual with so-called free-floating anxiety arising spontaneously. In an obsessional neurosis, excessive buying may be added to the list of other rituals.

2. Indebtedness may serve punitive needs for conscious or unconscious guilt feelings and may also operate as an indirect method of dominating or punishing a mate.

3. Indebtedness can be compensatory to inferiority feelings in which material possessions function to support the ego.

4. It can satisfy narcissistic needs by excessive expenditures for clothing, cars, etc.

5. It can be an expression of emotionally immature needs for immediate gratification of instinctive wants.

The last example above is an extremely common cause of indebtedness, especially in the pathologic personality group. This kind of indebtedness is associated with a varying degree of lack of consideration for the consequences of the debt and produces no apparent guilt feelings. It is marked by lack of ability to profit by experience. Repetition of indebtedness is the usual pattern. If these traits are too deep seated and present to a flagrant degree, they are difficult to manage; however, there are cases in which sufficient balancing factors are present to make treatment possible.

TREATING INDEBTEDNESS

From the examples above we can see that the factors involved in indebtedness may be very complex or very simple as in the case of temporary causes. The treatment of indebtedness varies according to evaluation of the fundamental cause or causes. However, we will assume that the majority of serious indebtedness necessitating professional help requires intensive study.

The average counseling procedure should include a complete survey of the individuals and circumstances concerned and an estimate of the dynamics behind the indebtedness. Setting up the mechanics of the budget, debt adjustment, or wage assignment should offer a tangible opportunity for establishing rapport between the caseworker and client while a study of the total situation is being made. The caseworker may add special services of the agency as necessary.

Ideally, the counseling caseworker should aim toward helping the individual to gain insight concerning the causes of his indebtedness. The task should be, and usually is, more than a financial accounting. However, if the clients lack the capacity to grasp or cooperate in obtaining insight, the caseworker can give assistance in a supportive capacity as long as the results warrant its continuance. A guiding and parental type of support may be the maximum type of service possible for some families.

It is possible that many caseworkers would balk at the clinical aspects of managing indebtedness. It involves no small amount of work and patience to placate creditors and to set up budgets and records of debt adjustments. If intensive insight treatment is not feasible, the counselor-client relationship may still be workable as long as progress is made on the symptoms. The level of effect upon the client may still be parental although the ideal treatment would be in the direction of resolving causative factors wherever possible. When this can be done, or even approximated successfully, we usually find that the effort expended was more than justified. The results are reflected in a family's stabilization and the caseworker's pride in a job well done.

MONEY AND THE FAMILY

The following is an outline of the practical as well as psychological significance of money in the family. Caseworkers have found it important to keep these points in mind:

I. Primary Significance of Money
  A. Meeting basic necessities
    1. The fundamental need for money centers about its use in meeting the basic necessities of life.
    2. Money is a fact of life which everyone, at some time, must deal with and develop a set of responses to.
    3. In our society we buy, rather than make, a living. The medium through which we exchange one service for another is money.
  B. Purchasing an environment
    1. In our society the financial status of an individual is a significant determinant of what environment he is to interact with and what the nature of his relationship shall be to that environment.
    2. From constructive use of the environment we obtain social satisfactions which meet, to some degree, our need for a sense of personal significance and productivity.
    3. Sharp changes in the amount of money available (increases or decreases) can result in

altering the quantity and quality of such experiences available to us, thereby undermining characteristic patterns of behavior and balance.

II. Secondary Significance of Money as an Expression of Personality
  A. Dependency
    1. The status of adulthood in our culture requires relative independence and the ability to assume responsibility for earning one's own living.
    2. When an adult is in need of financial help, he is no longer in command of his situation, and, at the point of crisis when a person faces his own helplessness, he is open and vulnerable to disaster.
    3. How we spend our money is an expression of a way of life. When a person's free use of his money is controlled, there is a feeling that his way of life is also being controlled and manipulated.
  B. Identity
    1. In a culture that values accomplishment, those who cannot achieve self-respect through work may soon come to feel that there is something wrong with them, not only as workers but as husbands and fathers.
    2. The recipient of income is a producer of goods of value.
    3. We are rarely convinced of our own value. Most often the feeling of self-confidence we have is merely a reflection of ourselves in other's eyes. That reflection is often expressed through the monetary value assigned to our activity and the products of our labor.
    4. Money, as much as any other single fact of life, determines our relationship to people and things in our environment, our position in the status and prestige system in which we live, our concept of ourselves, our personal worth, and the value of things we do and produce.
    5. Whether a man's failure is the result of his own shortcomings or due to circumstances beyond his control, he views his lack of accomplishment as the community does, in terms of personal failure.

III. Money Management
  A. Significance of money management as an expression of personality
    1. Feeling uncomfortable in a vague way is always more difficult for the individual to tolerate than is feeling uncomfortable about a specific problem. Therefore, anxiety about money can often be an expression of broader and less-focused anxiety.
    2. Families may use money as a method of control, domination, or punishment of certain members.
    3. We may use money as a way of punishing ourselves for certain guilt feelings.
    4. We also may use money as compensation for inferiority feelings.
  B. Skills demanded for family money management
    1. Postponement of immediate gratification is an important aspect of money management, yet it depends upon certain ego strengths.
    2. The ability to set long-term goals is a necessity for adequate money management. A strong ego, life experiences, and a value system that reinforces the ego's abilities are also necessary.
    3. In every family, decisions must be made about how available money shall be used to meet the demands of the individual members. A priority of value on individual and family needs must be established.

IV. The Caseworker and Money
  A. Families with low income are low-status families. Having them as clients reflects negatively on the worker.
  B. We now live in a society where it is easier and more acceptable for people to discuss the intimate details of their sexual life than for them to discuss specific details of their finances. Which of us would be comfortable about revealing the details of his finances, salary, savings, or poverty?
  C. From the point of view of social functioning, the symptomatology expressed through faulty money management is far more ominous and socially disabling than symptomatology expressed through sexuality.
  D. People in need evoke uncomfortable and angry feeling in all of us; they touch too closely upon our own dependency needs.

V. Significance of Work in Adult Functioning
  A. As adults, all of us have a need to create, to contribute to the world around us. Our work should meet this need in part.
  B. In our culture, various jobs, as well as various incomes, are assigned status meaning. Thus the kind of work we do, as well as the money we receive from it, bears on our sense of ourselves.
  C. Our sense of our own worth and value has a direct bearing on the way we perform a job. If we do not value our job, we will not value our performance on it.

FAMILY STABILITY

A California judge has said that money troubles produce more family breakups than any other single cause. A family either controls its money, or money controls the family. No family or individual who cannot control finances is secure. One of the biggest problems in most households is debt—uncontrolled debt.

Overindebtedness has become the most important family financial problem both in its extent and the depth of the damage that it does. The damage is disruption of family life, job loss, and marital discord. Many families plan payments to the hilt of their income and an interruption such as illness, unexpected medical costs, or a temporary layoff from employment can create disaster. Some families have always been in debt, adding to loans when the balance is almost paid. They spend most of their lives paying interest for the privilege of borrowing ahead to buy something they feel they must have now.

Families who come to a social agency usually see their financial problems arising from: (1) housing costs, (2) medical bills, (3) debts, (4) budgeting, and (5) food expenses. Our Agency sees the problems really divided into (1) personality factors and handling of money, and (2) dearth of income, with an overlapping between these two. Often families with adequate or better-than-average income have as much trouble managing their money as poorer ones because of the role that emotion plays in the use of money.

In most families, we have found that one parent has the dominant role of handling the money and making financial decisions. This parent may or may not have the best "money sense."

Recognizing the interrelationships and interactions of different personality factors between spouses, we may find one of any number of behavioral patterns:

- one partner with a chronic quest for power, prestige, and money attempting to mitigate underlying (and unconscious) feelings of inadequacy and personal worthlessness. This individual feels that he or she really owns nothing at all and is stuck with his feelings of personal impoverishment regardless of how much he actually amasses;

- an individual with self-hate and punishment needs who uses pressures and entanglements to impose a state of unrelenting emotional pain on himself;

- an individual with poor judgment who sees himself as limitless in effort, energy, and time;

- a partner with the need for maintaining emotional distance from himself and from his family. He "dilutes" his relationships through a constant preoccupation with business worries or other outside interests and hobbies;

- a husband with the irrational but unconscious search for the one magic deal which will produce unlimited dollars, security, self-esteem, and a solution for all his probems;

- a partner who is searching for excitement to mitigate feelings of emptiness and inner deadness. Here, there is often a need to set up and resolve larger and increasingly precarious problems within himself;

- an individual having an unconscious unresolved need to please and to gain approval from a mother or father figure, often long since gone. This need is sometimes transferred to a wife or husband.

- the person who is totally unfamiliar with leisure. To this individual, life is work and work is life. There has been no experience with anything else. Learning about different activities can be most painstaking and difficult for him.

These foregoing psychological implications may be the basic personality problems of a husband who is always in financial entanglements even though he is considered financially successful. We try to help such individuals recognize and understand the psychological implications of their tendencies, how their behavior affects other members of their family, and how they can change in order to build a happier and more balanced foundation for the total family life.

In some cases we may deal with the personality and partner who cannot buy anything for herself without feeling guilty, or without asking herself first whether everyone else in the family has that same thing, or an equivalent. This behavior shows a combination of difficulties in relating to oneself and to others. The pattern of problems causing this symptom may vary from person to person. Very often we find poor self-esteem, a compulsive need to be liked, and great difficulty in self-assertion as the main reasons. The symptoms may not disappear until the problems have been resolved, and this may require psychotherapy or a referral to a psychiatrist.

On the other hand, one spouse searching for security may have the impulse to buy material things far faster than the breadwinner can earn the weekly wage. This is closely related to another characteristic trait, the impulse to buy material things for one's children, showering them with gifts, toys, and clothing. This is a form of compensation for the buyer's deprived childhood and goes back to his or her own personality problem.

The need for material things, for which families go into debt, can affect family life to the extent that the husband must take on an extra job or the wife must go to work to supplement his salary and be able to meet commitments on payments. This may result in deterioration of family relationships. When the husband has pressure put on him to work extra hours, he loses his "place" in the family as a parent and the wife assumes more responsibility for the children and their discipline. If the wife does take employment in addition to the role of mother and homemaker, she may build up resentment against her husband's supposed inadequacies.

Social agencies give both specific and general help in financial counseling. We try to help families recognize what money means to the total family and to each individual, emotionally and materially. We help them to see when money is used as a means of control by one partner over the other, or when parents use money to lavish material things on their children to win their loyalty, love, and respect.

We help them to see that indebtedness may stem from the need to "keep up with the Joneses," to have as nice a car, boat, or television set without realizing the limits of one's earnings and future earning power. When the expectations of overspending exceed the income and running basic budget, we generally find poor communication between parents, and conflicts result. This inevitably not only affects the relationship between parents but it builds tension in the parent-child relationships as well.

A COOPERATIVE EFFORT

Recognizing the many implications of finances and indebtedness in families and working toward a solution that will bring a feeling of unity, accomplishment, harmony, and security, social agencies and social workers have, for many years, been counseling in money management and debt reduction. Sometimes it seems like a losing battle when we learn that in the past decade installment debts have doubled, reaching an all-time high not only in dollars but in percentage of income.

Through joint interviews, family interviews, or discussion group meetings, caseworkers approach both the theory and practice of money management. The value of money is considered from two points of view—source of funds and the use of funds—and also in relation to other values in our society: aesthetic, social, psychological, and religious. The key to success is to understand personal wants, values, and goals. Some families and individuals have to be helped to distinguish between wants, goals, and needs.

In setting up a debt adjustment plan, the caseworkers first calculate the adequate minimum budget which will give proper nutrition and meet the essential needs of the particular family. Our home economics consultant helps to set up appropriate budgeting standards. The budget is then subtracted from the family income to determine the balance available to apply to the debts. A reasonable estimate of 13 to 15 percent of the take-home pay after taxes is considered the amount of limit for indebtedness, but many families far exceed this limit. The balance of their available money is then prorated as equitably as possible according to the size of the individual debts outstanding. Sometimes a wage assignment is advisable to ensure an equitable distribution of the family's funds.

Generally, families accepted for debt adjustment service are those who have enough income in addition to the basic household budget so that prorated payments can be made to each creditor and debts can be paid within a two-year period. The budget is reviewed periodically with the family to consider necessary and reasonable adjustments.

The husband and wife must both show some indication, at the time of application for help, that they will work together on learning to handle their finances. Both must be willing to live on a marginal budget and show that they are sincere in paying their debts and are not just seeking protection from their creditors. Either husband or wife or both are expected to consult with their caseworker a minimum of once a month or, more ideally, every pay period.

The success or failure of a money management and debt adjustment program is based on clear diagnostic thinking of the socio-psychological aspects involved, with the expectation that the families who seek help will become financially rehabilitated and able to function more adequately and independently.

THE PRIMROSE PATH FROM EASY CREDIT TO BANKRUPTCY

JACK N. EISENDRATH

Recently the Advertising Federation of America issued a news release statement opposing the introduction of consumer education programs to what the Federation said was an already overcrowded curriculum of the nation's senior and junior high schools. The Federation contended that the movement by professional consumer groups would "unfairly influence our school children and create doubt and suspicion in their minds as to the integrity of the country's business firms and their advertising practices." It went on to say

> Neither government, professional consumer groups, nor people in advertising have any right to further complicate an already critical situation in our schools for the purpose of spreading propaganda, thereby distracting the attention of the students from the serious purpose of gaining a proper education.

Available facts do not support the concern of the Advertising Federation of America. Nationally, the total of bankruptcies rose from 18,510 in 1948, when total consumer credit was $14½ billion, to 208,329 bankruptcies for the fiscal year ending June 30, 1967, when consumer credit was about $95 billion. This is an increase of almost 700 percent in less than 20 years, far greater than the increase in population. In 1948 installment loans were 6 percent of disposable income; in 1967 installment loans were 13.9 percent of disposable income.

It is relevant to this discussion to note that all bankruptcies are multiplying rapidly at a time when employment is at an all-time high, and personal income has increased steadily. It is significant, also, that personal bankruptcies have increased at a steady pace. Today, for the first time, consumer or wage-earner bankruptcies are almost 92 percent of the total.

It is estimated that about $1½ billion in debts are presented to the bankruptcy courts for discharge each year. John Kearney, former chairman of the Illinois Committee for Fair Practices, said, "The human suffering that is caused, the breakup of families, the breakdown of individual morale, the deprivation of the very necessities of life are traceable, in many instances, to so-called easy-payment plans, which wind up being very difficult indeed."

American consumers carry an estimated 500 million credit cards and plates, with outstanding debt on credit cards estimated to be about $900 million. In 1966, 168,000 gasoline credit cards existed in nearly 40 percent of the 422,000 households in the Milwaukee area. One bank in Milwaukee had 700,000 credit cards in 360,000 households in Milwaukee. It is estimated that in August 1967 there were over 1,000 banks in the country issuing credit cards.

Recently, a 19-year-old girl came to my office asking for help with her finances. A large part of her debt was a result of use of credit cards, including one bank credit card charge of over $500. She stated that the girls who lived in her rooming house had a contest to see which one could acquire the most credit cards. We wonder what pressures were later used to recover on the debts incurred, and what headaches and heartaches were suffered by the girls who discovered that this was an "easy buy, hard pay" credit adventure.

It is well known that many of the candidates for the burgeoning bankruptcy statistics live from paycheck to paycheck, with each dollar of income spoken for well in advance. Often the installment payments are almost equal to the weekly paycheck, with not enough left over for proper food and shelter for the debtor's family. When the wage earner is laid off at the factory due to retooling, or when the working wife is pregnant, or an unexpected illness occurs, the "house of credit cards" collapses and buries the family in a helpless mire of installment payments.

BANKRUPTCY NO ESCAPE

In some circles bankruptcy has become as fashionable and automatic as a new station wagon. The question is whether bankruptcy serves its intended purpose today. Too often the bankrupt, after filing his court papers and obligating himself for $300 or more in court costs and fees, finds he is following a mirage.

Before the impact of installment credit and loans in the United States, it was possible in a bankruptcy to discharge one's debts and make a fresh start.

Today however, in many cases, at the time of bankruptcy the bankrupt still owes a large balance on his automobile. He is unwilling or unable to return the automobile and discharge the balance due on the automobile, so he reaffirms his obligation for monthly payments.

Often there is a large balance due on the bankrupt family's automatic washing machine, refrigerator, freezer, or color television set. The convenience of the appliance has become a necessity and the dealer is in position to solicit and pressure reaffirmation of his credit contract. In some instances, the merchant has been known to reaffirm on condition that the buyer make an additional credit purchase in recognition of the dealer's generosity.

After several such reaffirmed debts, the bankrupt is soon over his pocketbook in debt before one can say, "Your friendly finance company stands ready to serve you 24 hours a day." One finance company in a large midwestern city boasted that it had secured a reaffirmation of all its loans in cases of bankruptcy since the first of the year. Such success occurred because of the company's careful training program for personnel on how to persuade a bankrupt to reaffirm his debt. This is part of the company's policy that continued friendliness with the finance company is very much desired.

There are many bankrupts who, in order to secure a loan before bankruptcy, are required to have a co-signer. They then ask friends, who work with them, to co-sign at the finance company or credit union, or co-sign for the purchase of an appliance or furniture. After bankruptcy, if these men are to continue to work together without ill feeling, the bankrupt has no way out but to reaffirm this debt. After all these unforeseen and apparently inescapable pressures, the bankrupt easily finds himself in debt up to the tune of several thousand dollars.

Another obstacle which prevents bankruptcy from becoming a source of relief is the increasing use of fraud actions against the bankrupt in the State Court after bankruptcy has been completed in Federal Court.

The average debtor seeks a loan because he is in serious financial distress and owes 15 to 20 creditors. The lender asks him to list all his outstanding debts, ostensibly to aid the lender in deciding whether to make the loan. The debtor who has not earned his Doctor of Philosophy degree, or graduated from the "Accredited School of Memory Training," cannot remember his 20 creditors and the amounts owed to each. As a result he lists some of the creditors and balances which come to his mind at the moment, and innocently presents this as his complete list. Then the debtor, who failed to reveal all his debts when he applied for the loan, may be sued after a bankruptcy for the full balance due the offended creditor, and the bankrupt suddenly finds himself with a large debt to repay, plus court costs and attorney fees after suit in the State Court.

At a recent Bar Association Seminar in Wisconsin, a bank attorney advising lawyers on how to handle collections, said that 9 out of 10 borrowers fail to reveal all their debts for fear that they will not get the loan they need so badly, and thus become subject to fraud suits. In a community in Milwaukee, because of the large number of court actions, some finance companies have found it efficient to mimeograph forms to be used after bankruptcy for suits for fraud.

The foregoing is not meant to excuse the borrower for fraudulent statements, but to raise the question of accepted commercial lending policies which anticipate fraud, and develop procedures in advance to meet expected fraud. The bankrupt who is faced with a fraud suit will often reaffirm that debt too, even though he may have a proper defense to a long and expensive court action.

EFFECTS OF BANKRUPTCY

When numerous debts are reaffirmed, the bankrupt and his family face a bleak future of being forced into family strife about money matters, and subsequent family disintegration. It is estimated that almost 20 percent of bankrupts are repeaters who will seek entrance into the court again for a new bankruptcy after the statutory waiting period of six years has expired. In many cases, debtors resort to bad check writing to meet installment payments, and the criminal warrant becomes the next obstacle facing the family breadwinner. It has been estimated that every day in America 300,000 bad checks are written.

These are some of the factors that make consumer credit and bankruptcy involvement a serious social concern that requires a long, hard examination. Careless extension of easy credit to mesmerized buyers, carefully planned advertising campaigns for easy loans, a fast telephone call, or a simple postcard invite debt and demand national attention to a rapidly expanding social evil.

Some people berate the wage earner bankrupt as possessing a new low moral fiber, eager to file bankruptcy at the drop of a pencil, with no respect for the merchant's investment or the funds of the finance company. While this castigation of the debtor gathers momentum, one forgets the full-page repeated advertisements of the merchants, extravagantly describing how easy it is to purchase a glorious, unforgettable color television set at a new "everyone-can-afford-low-low-price with no money down and 36 months to pay." These impressive advertisements make no mention of the 18 percent or more interest that will be added to the quoted price.

Is the alleged moral descent of the bankrupt related to the friendly finance company's repeated letters to its list of borrowers which ask where they have been for the past few months and urge them to come in for a fast loan? A local department store, member of a national chain, instructs its clerks in the collection office to call customers who have not had credit purchases for some months, and invite them in to make use of their charge account.

How is the so-called moral decadence of the debtor related to the too-easy loan made to poor-credit-risk debtor without adequate security, but with a co-signer? If a bankruptcy does occur, the lender eagerly turns to the co-signer who is a good credit risk, and the disturbed co-signer faces an unhappy future of unexpected debt.

CHECKING THE PROBLEM

Eagerness to load the wage earner with merchandise should not be an excuse for permitting no-money-down sales. Different kinds of solutions are possible. Credit buying and lending can be restricted by laws which require an adequate down payment on all installment sales. Extension of credit and loans to poor risks can be regulated. In fraud actions sellers and lenders should not be indulged by the courts when they offer excuses for not knowing about an existing large indebtedness. Surely our computerized modern society can devise some type of central exchange in which debts can be assessed before further credit is extended.

From the examination of available statistics, it would appear that if the rapid rise of bankruptcy is to be checked, individual states would do well to abolish, or severely limit wage garnishment. In this way courts would not be used for easy collection methods which relieve merchants and lenders of careful credit practices. Where garnishment laws are concerned many states are sorely deficient in allowing exemptions of wages which are not adequate for family subsistence. Under such pressure it is natural that the wage earner, whose first obligation should be to his family, will seek relief in the Bankruptcy Court.

In Wisconsin garnishment is so easy that a creditor can tie up a man's wages even before the Court enters a judgment and makes a determination that a debt is owing. Attempts to change this law have been fiercely fought by the commercial lobby. The county of Milwaukee has about 13,000 garnishments a year, or an average of 50 per day, every day the courts are open. Consider the disaster to the large number of wage-earner families who are caught in this financial tidal wave.

In a 1965 study of bankruptcy in the Flint, Michigan area by Robert Dolphin, Jr., 75 percent of the bankrupts indicated that garnishment, or the threat of garnishment, caused them to file bankruptcy. Statistics show that the states where garnishment is easy have many hundred percent more bankruptcies than states where wage-earner garnishment is prohibited or made difficult.

USING CHAPTER XIII

For the person who is having serious debt difficulties, one alternative to bankruptcy is the use of Chapter XIII in Federal Court. Under this proceeding a wage earner can petition the Court to accept a Plan for payment of his debts over a three-year period. He must be insolvent or unable to pay his debts as they mature. The wage earner is called a debtor rather than a bankrupt.

In bankruptcy there is an original filing fee of $50 and an attorney fee of approximately $250 required in most cases before the papers are filed. Obviously, most depressed debtors will need to go further into debt to get such fees. Under Chapter XIII the only cash requirement is a $15 filing fee. The rest of the fees, which are more costly than bankruptcy fees, consist of approximately 10 percent of the amount paid to creditors by the Trustee, who is appointed by the Court, and the regular attorney fee allowed by the Court. These fees are not required in advance, but are taken out of wage deductions paid regularly during the Plan.

While the expense of such a Plan is greater than the cost of bankruptcy, there are several saving aspects. First, when a Chapter XIII Plan begins, creditors can no longer add interest to the principal due. Also, not every debtor can use a Chapter XIII proceeding.

To determine whether a debtor is eligible, the husband and wife meet with the attorney and work out a practical family budget. Living expenses are subtracted from income. For a feasible Plan, sufficient money must be left over to pay the debts, exclusive of real estate debts, over a three-year period. This is called an *extension of debt payment*. For example, if debts total $2,000, a wage earner would need $15 per week to pay the Trustee in order to be relieved of his debts at the end of three years.

The law also provides that if a debtor does not have enough to pay his debts in full over three years, he may propose under certain circumstances a *composition of debts* under which a percentage of the debt balance may be paid over three years. The debts are then discharged in full at the end of three years. If the Plan has been properly complied with under such a proposal, a debtor could pay 80 percent, 50 percent, or 20 percent, or any percentage of the balance due, and secure discharge of debts in full. Creditors who are unsecured must be treated alike for payment under the Plan. Secured creditors may be dealt with on an individual basis inside or outside the Plan.

To be confirmed, the Plan must be accepted by a majority of creditors in number and amount of proven and allowed debts due unsecured creditors. Once the majority accepts, the remaining creditors must abide by the Plan, though they may have opposed the Plan. All secured creditors included in the Plan must agree to accept. Most creditors will accept any reasonable Plan, inasmuch as the creditor then saves excessive collection energy and expense.

For the duration of the Plan the Court retains exclusive jurisdiction of the debtor and his property. Under this rule, when the Plan is filed, the Court can immediately restrain creditors from garnishments, court action, and harassment, which can be a lifesaver to the debtor. While the Plan is in operation the Court has jurisdiction to increase or decrease payments by the debtor, if conditions warrant. The Court, at the time of filing, can reject executory contracts which might interfere with the financial stability of the family. During the operation of the Plan the debtor is prohibited from entering into new contracts and making unnecessary purchases or loans without approval of the Court.

Under a United States Supreme Court decision, a debtor who has been bankrupt may file a Chapter XIII proceedings even if the six years have not elapsed since he filed bankruptcy. Nearly 50 percent of those who file under Chapter XIII in the Wisconsin area *have* been bankrupt and do file under Chapter XIII before six years have elapsed. This fact emphasizes the failure of bankruptcy to solve the debtor's needs.

LIVING WITH THE PLAN

Experience has proven that if a Plan is to be successful, payments into it must be made through payroll deduction by the employer. Once the employee is under the Plan he may become much more efficient, because the worry and strain of garnishment and harassment has been removed.

However, it is evident that requiring a debtor to remain for three years under a wage-assignment Plan to a Trustee is a strict discipline that often is more than the debtor can endure. For this and other reasons, Chapter XIII proceedings are not guaranteed of success.

In a Wisconsin jurisdiction it is estimated that about 50 percent of the Plans fail before completion. Nationally, about 40 percent of Chapter XIII Plans are completed. In the United States during 1966 a total of $18,826,318 was paid to creditors in 10,529 Chapter XIII cases successfully concluded. Let us remember, however, that many millions more are paid to creditors in cases which are dismissed before they are concluded. In 1966 a total of 28,261 Chapter XIII cases were filed in the United States. It will take three years to know how many of these will be concluded.

While Chapter XIII does not solve the problem of high-pressure loans and overbuying, a Chapter XIII Plan does correct some of the failures of bankruptcy where there might be numerous reaffirmations of debt because a debtor desires to keep merchandise, or wishes to protect co-signers or where creditors start fraud action. Chapter XIII also preserves the feeling of self-respect that some debtors lose in filing bankruptcy. Chapter XIII enables the debtor to feel he is facing his creditors and not just avoiding obligations. (A comment should be made here about pending federal legislation which would make Chapter XIII compulsory should the Court Referee decide bankruptcy is not feasible for a debtor. There is much responsible opposition to such legislation, especially with the reasoning that Chapter XIII must be voluntary to succeed, and cannot be successful as a forced program.)

Chapter XIII's successful implementation requires a sympathetic Referee who believes in the Plan, an attorney who is willing to do his part to add to the rehabilitation of a debtor who needs support and understanding help, and a debtor who has some willingness to learn and practice the essentials of the intelligent use of money and credit. To rehabilitate a family that has lost its way in the financial mazes of modern credit living takes more than proposing a Plan to the Federal Court. The intricate and devious commercial pathways in our life demand that a system of family financial counseling be developed, with public or private sponsorship, in all of our urban centers.

For those who have completely lost their way and enter the courts, one suggested plan is for the Federal Court to institute a program of counseling for Chapter XIII debtors as an adjunct to the Court and the Chapter XIII plan. In state divorce courts where marital harmony has become bankrupt, the divorce counselor of the court is an accepted assistant to the legal machinery to aid in strengthening the family. In the federal criminal area the high-level guidance of the Federal Probation Department gives important assistance to the Court. This assistance is necessary to help the law violator become a worthwhile member of society again. With well over a million family members and many more millions of creditors annually being affected by bankruptcy and Chapter XIII proceedings, here is a logical area for careful and searching social planning to solve difficult social needs.

With care and wisdom we can turn the growing area of financial failure into one of solid strength in modern family living. The success of a family-oriented society depends on a healthy, free functioning family unit, and good mental health cannot exist for children and parents in a family that is always living on the brink of financial disaster. The full mental resources of such families must be available to help seek a workable solution for the seemingly unsolvable issues in the tense and disturbed cities of today.

SOURCES OF CREDIT

BARBARA HIGGINS

The purpose of comparing credit sources, their procedures, and their policies, is to determine which one best meets the need of the consumer at a particular time and for a particular purpose. Some borrowers may find only one or two sources open to them while others might have a choice of several sources. When a choice is possible, the borrower should consider (1) the amount of money he needs; (2) when he needs it; (3) length of time he needs it; (4) what payment arrangement he can follow; and, most important, (5) where he can get the lowest interest rate.

There are several ways of classifying credit sources. The Federal Reserve Board calls one group *installment credit* and includes in this group what is called automobile paper, other consumer goods paper, repair and modernization loans, revolving charge accounts, and personal loans repaid in installments. The second group is called *noninstallment credit.* This group includes single-payment loans and charge accounts, except for the revolving and service credit which is credit extended by doctors, dentists, utility companies, and similar groups.

Another way of classifying credit is to call one type *sales credit,* that is, where the consumer receives a product and promises to pay later. A second type would be called *loan credit* with the consumer borrowing cash, usually from a financial institution, and promising to repay the loan at a later date.

For our purposes we will use the sales credit—loan credit grouping, as that probably represents the consumer's usual way of thinking.

Our discussion here will give only general information about the more common types of credit used by the consumer, since many variations exist. State laws differ and localities differ in policy and customs. Likewise, in our fast-moving age and in the expanding field of consumer credit, we see many innovations and new developments. The use of the credit card in the last few years is but one evidence of the changes taking place, and we will probably see many more in the near future.

SALES CREDIT

Retail or sales credit is extended to consumers by department stores, furniture and appliance stores, and by automobile dealers. Certain chain stores, discount houses, and supermarkets also offer credit plans to their customers. These plans carry many different labels and have many variations.

Charge accounts allow a customer to purchase goods or services with a promise to pay the full amount at a specified future date, usually within 30 days. He gives his signature in receipt for the goods and later pays with cash or a check.

This type of account is referred to as a regular, or 30-day, account. Normally there is no charge, as such, to the customer using this type of account.

Budget charge accounts require that only a portion of the bill be paid each month for a set period, possibly three, six, or twelve months. Some accounts require a regular monthly payment regardless of the amount charged to the account; others determine the payments to be made according to the amount of the obligation outstanding. Ordinarily, there is an interest charge or credit fee with the rate stated on a monthly basis.

Option charge accounts operate like the 30-day account if the bill is paid within a certain number of days. If the bill is not paid as agreed, the account is changed to a deferred payment plan and interest is charged on the amount outstanding. Payments may be extended over a period of months, but a portion of the amount owed is supposed to be paid each month.

Revolving credit accounts allow the customer to make new purchases and to bring the balance owed up to a maximum amount if he meets certain payment conditions. With this plan the customer can make new purchases before he has paid in full for his previous purchases. The plan may require either specific monthly payments or that a percentage of the principal be paid each month. Whenever the payments reduce the amount due below the maximum amount allowed, the buyer can make new purchases up to the maximum. An interest charge, stated as a monthly rate, is added to the balance owed at the end of each month.

Charge account banking is a plan whereby retailers in an area offer charge account services to their customers with a particular bank assuming all risks and costs. The customer may buy on credit in several stores and receive one bill at the end of the month. The bank pays the store, and the customer pays the bank after 30 days. In effect, the bank makes the loan to the customer. A charge for each sale is usually paid by the retailer, and the customer pays a fee for using the service. Budget accounts allowing the customer to pay over a period of several months are sometimes offered with an additional fee for this arrangement.

Credit cards are mentioned here because they represent a source of credit in retail stores as well as other places. They are a variation of charge accounts and may be issued either for a specific purpose or as a general purpose card. Credit cards make it possible for the consumer to charge for services at restaurants, hotels, motels, airlines, telephone companies, and gasoline and auto service stations.

In the credit card system, merchants bill the credit card company, which, in turn, bills the customer. There is a fee for most general purpose cards, but specific purpose ones usually do not involve any extra costs.

There tends to be no limit on the amount that can be charged. However, the card can be withdrawn if the buyer does not pay. Credit cards are looked upon as a convenience. They are useful to those who want a record of expenses, and especially useful to those who travel.

Installment plans are a form of credit purchase in which a predetermined amount is paid periodically until the purchase price of the article and the carrying charges have been paid. This type of credit is used for higher priced items than would normally be purchased on a charge account plan, e.g., automobiles, furniture, household appliances, and equipment.

Installment plans involve a contractual agreement. A conditional sales contract, lease, or chattel mortgage contract is almost always necessary. In turn, the purchaser signs a promissory note which states the monthly payments. As security, the seller retains title to the goods and has the right to repossess if payments become delinquent.

In installment buying, the customer pays an interest or finance charge which is added to the price of the article being purchased. A down payment, which is usually required, shows that the buyer has a genuine interest in the purchase and eliminates some of the risk of non-payment. A larger down payment lessens the amount of credit extended, lowers the risks involved, and lowers the total finance charges to be paid, all of which prove to be advantageous to the purchaser.

Some families use installment plans because periodic payments of smaller amounts are easier than saving ahead to pay cash for the more expensive items. Meeting an obligation on a weekly or monthly basis has an element of force, and certain people think it helps them to meet their obligations. However, it is important that they also compare the interest charges to make sure they know how much buying on credit is actually costing.

The *conditional sales contract* is commonly used in installment buying. Title of the goods remains with the seller until he has received payment in full. If payments are not made as agreed, the seller can repossess the goods and the customer can be held responsible for the deficient amount. The repossessed goods are supposed to be sold and any money over the unpaid balance and expenses involved in the selling returned to the customer. This can be a rather confusing and involved process and not likely to work to the customer's advantage.

If the sale of the repossessed goods does not cover the unpaid balance, the seller can bring a judgment against the customer for the unpaid amount. The customer would then owe the unpaid balance on goods he no longer owns.

The *chattel mortgage contract* is similar to the conditional sales contract in that the seller holds title until the final payment is made. In default of payments he can sell the goods and apply the proceeds to the amount still owed. In many states the mortgage is filed as a matter of public record. This protects the seller against anyone taking a lien on his interest in the property.

The *bailment lease* is used infrequently. Title of the property remains with the seller until the last payment is made. It is then purchased for a small sum, although this is usually waived by the seller. In essence, the customer pays for the use of the property until the payments are completed. If the customer defaults, the seller takes back the goods and keeps the previous payments as rent for the property rather than as payment for the property.

This discussion of installment buying should be sufficient to convince one of the importance of reading and understanding the terms of any installment contract. The buyer should make sure all blanks are completed, and he should read and understand the contract before signing it. The contract should contain the following amounts, listed separately and not together in a lump sum:

Price of item, excluding extras
All extras, itemized
Trade-in allowance, if any
Down payment
Cost of insurance, if any
Amount to be financed
Amount of weekly or monthly payments
Number of payments
Amount of extra financing costs, if any

LOAN CREDIT

Commercial banks make direct loans to consumers and purchase installment credit contracts from automobile and appliance dealers. A commercial bank personal loan may be a term or single-payment loan, or an installment repayment loan. The *term loan* is a short-term loan, usually for 30 to 180 days, with a promissory note requiring full payment on the due date. The *installment repayment loan* is for longer periods, usually 3 to 24 months, and requires periodic payments.

Loans of either type may be unsecured with only the borrower's signature guaranteeing repayment. Some loans may have a co-signer, a third party who endorses the promissory note and thus gives the bank two persons guaranteeing payment. Even with a co-signer no tangible asset need be pledged. If the loan is a secured loan, collateral would be deposited at the bank or pledged as security, to insure repayment of the loan.

The amount that can be borrowed from commercial banks varies among banks and is usually determined by the purpose of the loan and the credit record of the applicant. Banks have rather high minimum credit requirements because they are lending money entrusted to them by their depositors. However, those who qualify for bank loans will find the interest charges lower than those from most other lending agencies.

Industrial banks formerly specialized in making loans to industrial wage earners. They have now expanded their services, making more loans to individuals, offering savings and checking account services, and performing functions similar to the commercial banks. Originally they were known as Morris Plan Banks but most of them have dropped this name and now call themselves industrial banks. Under their plan for loan repayment, the borrower makes regular payments in a non-interest-bearing account, arranged so the borrower will have enough on deposit to repay the loan when the maturity date is reached.

Sales finance companies might be labeled an indirect source of credit because they buy installment credit paper from retail merchants for cash. The sales finance company takes title to the property and collects the payments.

These companies offer different plans. In the *full recourse plan,* if the buyer fails to pay, the seller is responsible to the finance company for the unpaid balance. With the *limited recourse plan,* the seller is responsible for the first few months, after which his responsibility is reduced or eliminated. In any case, if the buyer defaults, the finance company repossesses the property for resale in order to cover the unpaid balance of the loan. This type of credit is used mainly for financing automobiles and household appliances, but it may extend to other types of purchases.

Savings and loan associations and savings banks usually make loans up to the amount that the borrower has on deposit. The share account, or passbook account as it may be called in a savings bank, is accepted as security when a short-term loan is wanted. These loans are often used when the interest charged on the loan is less than the amount of dividend or interest earned in the particular period of time. The loan is usually available at a preferred interest rate since it is secured by the borrower's deposits. It is used to save interest, or when the borrower does not wish to disturb the principal of his account.

Some savings banks make personal loans with or without collateral.

One of the main purposes of both savings and loan associations and savings banks is the financing of home ownership and home improvements. Their mortgage loans are usually the amortized, monthly payment, first-mortgage type, although they make second mortgages. A home owner may mortgage his home to obtain money for other consumer purposes.

Credit unions are mutual voluntary cooperative groups organized for the dual purpose of promoting savings and making loans to their members. The credit union may be a particular group of employees or may be made up of church, fraternal order, racial, or community groups. All borrowers must be members of the credit union. Membership is obtained by buying, for a small sum, at least one share of stock. The purchase of additional shares of stock establishes a savings account for the member, and his deposits are used as capital to lend to borrowers. Profits of a credit union are paid out to the shareholders in the form of dividends.

The credit union is managed by a board of directors or by trustees elected by the shareholders. Officers are appointed by the board. All serve without compensation.

Credit unions are chartered under federal or state laws, and all of them follow the same fundamental plan; but they are not entirely uniform in operation. Policies and regulations differ in various states.

Loans are made on the basis of character, number of shares held, second mortgages, chattel mortgages, other securities, and with co-signers. Credit unions operate with low overhead costs because of officer-donated services and employer-donated facilities and equipment. Because credit investigation costs are low, interest charges on loans are comparatively low.

Insurance loans are available to life insurance policyholders directly from the insurance company after policies have been in force long enough to accumulate cash value. A policy may also be used as security for a loan at a commercial bank. This applies to all kinds of life insurance except term.

An insurance policy is used, in essence, as collateral for a loan. The amount of the loan can equal the cash value of the policy, and the interest rate is usually lower than the rate a borrower can get on loans from other sources.

From the lender's viewpoint, there is no risk involved. Should the borrower fail to pay the loan, the lender's money can be collected as long as the principal and interest do not exceed the cash value of the policy.

Insurance companies encourage but cannot demand that loans be repaid. If the loan is not repaid, the obligation is deducted from the face value of the policy, leaving less for the beneficiaries.

Loans on insurance policies are convenient to arrange, usually available on short notice, and can be obtained when money is not otherwise available. In effect, the loan represents the savings accumulated in the policy by the borrower and is his own money. But the company considers it must charge interest to the policyholder in order to cover the expense of making the loan and to offset interest it could otherwise be earning on the money.

Consumer finance companies or small loan companies specialize in making small loans to people whom other lending agencies might not consider a good risk. The general concept is that people use the services of a finance company to tide them over a financial emergency; therefore, many of the loans are for a few hundred dollars, often under $500. These companies came into existence as an effort to curb illegal moneylenders or "loan sharks." People without assets who could not meet the requirements of other lending agencies would turn to individual moneylenders who charged extremely high rates.

Most states now have small loan laws which regulate the maximum loan allowed and the maximum interest rate to be charged by these companies. Usually the law permits varying rates on different size loans—that is, a higher rate on the smaller loan.

Small loan and finance companies have higher maximum rates than other lending institutions, but it should be remembered that they meet a specific need. These companies will make loans to persons not considered a good risk by other lenders, they make loans in small amounts, and their rates are all-inclusive; that is, they do not include any fees, fines, or handling charges. The amount of the payment is usually the same for each month of the loan and includes interest on the unpaid balance. A promissory note or agreement is signed by a borrower for the amount owed including the interest charges.

If a borrower defaults in his payments, a company tries to get him to pay something or to rearrange the payments to take care of his obligations. It is, of course, to the interest of the company to keep losses at a minimum.

In former years finance companies loaned money only when the loan was secured by a cosigner or by a chattel mortgage giving the company the right to repossess the property. Because repossessing property presented numerous complications and costs, companies are now offering loans secured only by the borrower's signature. However, in certain instances chattel mortgages are used with the borrower's assets as security. Sometimes the borrower is asked to sign a wage or salary assignment which would allow the lender to collect from the borrower's employer if payments are not made as agreed.

Remedial loan societies are non-profit organizations. Limited in number, they are being replaced by commercial banks, credit unions, and consumer finance companies. They usually make loans on personal property without credit investigation. If the loan is not repaid, the property is sold, any surplus is given to the borrower, and any loss is accepted by the society. Interest rates are comparable to those of banks and credit unions.

Pawnbrokers might not be considered part of the consumer credit industry, but they do provide an immediate source of money. Most of their customers are from low-income groups who are often unable to borrow elsewhere. With pawnbrokers, no note is signed, but personal property is left with the pawnbroker as security. The property is appraised, and the loan averages one-fourth to one-half of its resale value. The loan is available immediately. Property can usually be redeemed within a year by paying the loan plus interest in one lump sum. If the loan is not paid, the lender has the right to sell the property; however, the borrower has the right to any surplus, if there is any.

Interest rates are rather high; but, of course, if the property is not called for, there is no interest charge and the borrower receives only the original amount of the loan. Most pawnshops operate under special state legislation but with very little supervision.

Illegal lenders operate outside the law and charge whatever they can get. Naturally this is in excess of the maximum permitted for ordinary loans. The borrowers are unfortunate persons who have no other source of credit. The rates are so high that often after making a number of payments the borrower might still owe more than the amount of the original loan.

OTHER CREDIT ARRANGEMENTS

Home loans for buying, building, or remodeling are offered by banks, savings and loan associations, and by some credit unions. The property is pledged to the lender as security in the form of a mortgage until the payments have been made in full. The rate of interest and the duration of the loan depend upon the condition of the property, type of lending agency, and the risks involved.

Agencies of the federal government, such as the Federal Housing Administration and the Veterans Administration, will guarantee loans if the property meets certain requirements.

In general, these loan arrangements require a lower down payment than does the so-called "conventional mortgage."

The home buyer might well compare the plans which offer a government guarantee with the plans which do not. If he can manage the larger down payment and the shorter repayment period of the conventional mortgage, it will be to his financial advantage.

Educational loans are available from the college or school a student attends, from educational funds of service clubs and community organizations, from state and the federal governments, and from banks, credit unions, and finance companies. The size of the loan, the interest rates, and the terms of repayment vary considerably, but in general, loans for education have liberal repayment terms and low interest rates.

COST AS A GUIDELINE FOR USING CREDIT

ALBIE RASMUSSEN

Many financial problems of families could be avoided if consumers were as shrewd in shopping for the best buy when financing their purchases as in shopping for the best buy when purchasing merchandise. Perhaps my concern for consumers is the result of an installment credit plan in which my husband and I were involved during the first year of our marriage.

On the way home from work one evening, my husband steered our old car into the nearest automotive dealership because of a broken piston. Even though he was a skilled mechanic and could have repaired the car, other factors, such as badly worn tires, entered into our decision to trade. Above all, we needed reliable transportation because my husband's odd working hours did not coincide with the bus schedule.

The car we selected was an excellent buy, but it had one serious drawback: the price was $225 more than we had saved toward a car purchase. The alternative offered by the dealer was an installment plan consisting of payments of $22.50 for 12 months. After searching for other cars at other dealerships, we decided this was the best automobile for the cash price and signed the installment contract.

Like so many other consumers, we shopped extensively for the best buy in merchandise; yet we did not consider even one alternative to the dealer's credit plan. Like most consumers we were psychologically attuned to the myth that all lenders traditionally charge six percent interest. We did not consider borrowing on our life insurance policies, nor investigate the possibility of borrowing from any other source. We accepted the car and credit plan as a package.

Had the dealer quoted the true annual interest rate of approximately 36 percent we would have been shocked into seeking an alternative to his credit plan. The point is that consumers need a price tag on credit which is informative, meaningful, and useful as a basis for comparison-shopping at all lending institutions. The price tag to which I refer is the unit price of credit—the true annual interest rate.

Consumers also need to know the dollar cost of credit to weigh the advantage of immediate use of goods against the disadvantage of extra cost when buying on time. Our automobile dealer's installment contract should have disclosed the dollar cost for financing the $225 loan. Had we been wise shoppers of credit, we would have reasoned as follows:

1. The cash price is $225.
2. If we buy on time, the price is 12 monthly payments of $22.50 each month, or $270.
3. The difference between cash and credit is $270−$225, or $45, the finance charge.
4. We need a car now, but is there another place to borrow $225 for less than $45?

Unfortunately, our only concern was to fit the $22.50 monthly payment into our budget. Matching payment terms to cash flow is necessary, but it should not be the only criterion in making decisions related to the use of credit. Too often this is the case.

Consumers should do more long-range planning while matching payment terms to their incomes and other expenses. By paying high rates of interest without considering the effect on savings, families decrease the amount of money available for future needs and wants.

THE FINANCE CHARGE

Consumers need to know which costs are included in the finance charges so that they are not paying for services they do not need or want. Therefore, the contract must be itemized. If it does not disclose all costs for which the borrower is charged, the borrower should demand that the charges be itemized. There are two types of charges:

1. Those that are ancillary and would be paid whether the purchase were for cash or on credit;
2. Those that would not be made if the purchase were for cash.

Differentiation between the two types of charges is the first step in computing dollar cost of credit. The Department of Defense (July 1966 Directive Number 1344.7 to creditors of military personnel) distinguishes between these extra charges as *ancillary charges* and *finance charges.*

Ancillary charges are those from which the seller or lender receives no benefit, and which would be paid if this were a cash purchase, such as taxes, auto license, filing fees, or recording fees paid to public officials, and so forth.

Finance charges are those which benefit the seller or creditor, and which would not be made if this were a cash purchase. These are official fees for filing or recording a credit instrument, charges for investigating creditworthiness of the borrower, insurance premiums (life, disability, health, accident, other), and all other charges for extending credit including the interest charged.

Military personnel are adequately provided with sufficient insurance coverage so that they need not carry additional insurance coverage for credit outstanding. However, although this decision is made for servicemen, other consumers will need to decide whether they need and want such extra services. If the services are wanted, their costs can be considered as an ancillary charge. However, if the consumer does not need or want these services but receives them, then obviously they are costs of obtaining financing.

It is important in my judgment that the consumer's choice be an objective one uninfluenced by the creditor's interest in profiting from the sale of these extras. Therefore, I would recommend that the non-profit position of the creditor be preserved in order to insure his objectivity in offering the extras as an adjunct to credit. The creditor, in turn, should carry sufficient insurance to protect his interest or to be relieved of collecting from the bereaved or the ill.

COMPUTING THE RATE

Computing the interest rate in an installment contract is much more complicated than finding the dollar cost of credit. The formula ($r=I\div Pt$) with which seventh-graders are familiar applies to one-payment loans and not to installment loans.

Even when the interest rate or dollar cost per $100 is quoted as an add-on rate, such as low bank-rate financing of $5 or $6 on new cars, consumers are generally unaware of the true annual rate. Cost-comparison shopping of installment credit is more difficult than other comparison shopping because most consumers do not realize that their use of money declines with each payment to the creditor. In effect, the rate they pay on an installment loan is roughly twice the rate that they believe they are paying.

The confusion stems from a peculiarity of installment credit quotations. The cost quoted by most lenders applies to the beginning balance borrowed, not to the average balance used by the borrower. To clarify this point, a distinction might be made between the terms *borrowed,* in reference to the beginning balance, and *being used,* in reference to the declining balance in installment contracts.

Consumers tend to be so appreciative of the convenience of paying in installments, rather than in a lump sum, that they do not analyze the cost of installment credit objectively in relation to the amount of money being used. At the same time they do not comprehend the abstract concept of the true annual interest rate, since they are more accustomed to thinking about concrete objects as they shop for goods.

Rule of 78th's or Sum of the Digits. I would like to share with you a demonstration I have developed to translate an abstraction into concrete form. I found it useful in teaching at both the secondary-school and college level. It can be illustrated easily on a flannelboard.

Let us use a saddle club's rented pasture instead of the total sum of money we borrow or rent. The club pays $225 cash to use the whole pasture for one year.

First, let us consider this the same as a one-payment loan on which we pay simple annual interest, since we are allowed to graze our horses on the entire 12-acre pasture for the entire 12 months. This is illustrated in Figure 1.

Now let us pretend this is an installment contract. We borrow $225 for 12 months. We pay back $18.75 each month. In renting the pasture Mr. Green wants us to let him have the pasture back for his own use in equal monthly installments of 1/12th the pasture, or one acre. He divides the pasture with a fence into one-acre plots. Each month he takes back one acre for his use, so our horses must graze on one less acre of pasture, as shown in Figure 2.

FIGURE 1. Illustrating a One-Payment Loan

H = Horse

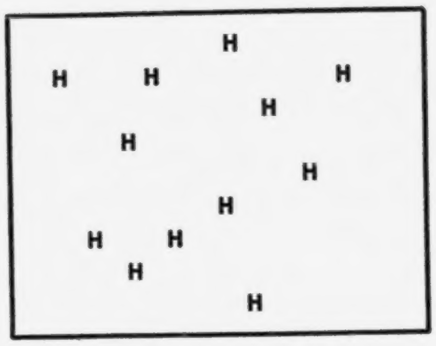
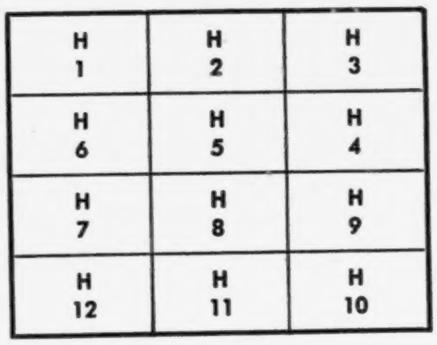


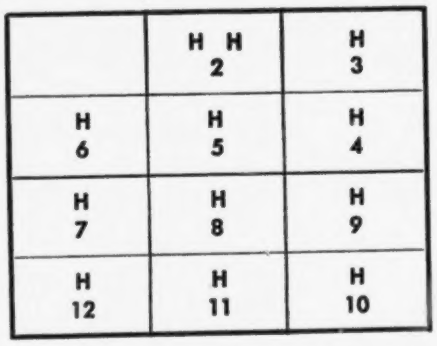
FIGURE 2. Illustrating an Installment Contract

H = Horse

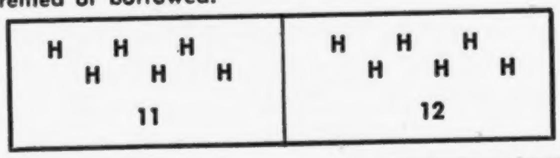
Step 1. At the beginning of an installment plan we use the entire pasture or entire amount of money:



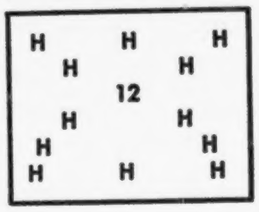
Step 2. At the beginning of the second month we give back 1/12 of the pasture or money. This month we use only 11/12 of what we borrowed or rented:



Step 11: At the beginning of the 11th month we are using only 2/12 of the pasture or money we rented or borrowed:



Step. 12: At the beginning of the 12th month we have been forced to crowd all of our horses into 1/12 of the pasture:



(Each month's decline in acreage available for the horses can be shown on the flannelboard. Figure 2 illustrates the first two and the last steps. However, the flannelboard demonstration should include all twelve steps. Use green flannel with white strips to divide the board into 12 large squares. Place a white horse into each square. Show the loss of pasture by crowding the horses into the remaining area.)

Our horses have been allowed to graze on an average of roughly one-half the pasture each month. We add the number of acres used during the first month, which was 12, and the number of acres used the last month, which was 1. That gives us a total of 13. To get the average, we divide the total of 13 by 2 because we added only 2 numbers. That gives us an average of 6½ acres used monthly. Since we paid rent to use the entire 12 acres of pasture, but were allowed to use only about half of it, our rate of rent was almost doubled.

We could use the long form to figure this. We would simply add the number of acres we were allowed to use each month. That would be 12, 11, 10, 9, 8, 7, 6, 5, 4, 3, 2, and 1 added together, making 78. Since we used 12 numbers, we would divide the total by 12 to get an average of 6½.

The fact is we are privileged to use only approximately one-half the pasture, making our rent twice the rate we would pay if we could use the entire pasture for one year. I submit this as proof by demonstration of the old rule of thumb that the true interest rate in installment buying is almost twice as high as in simple interest.

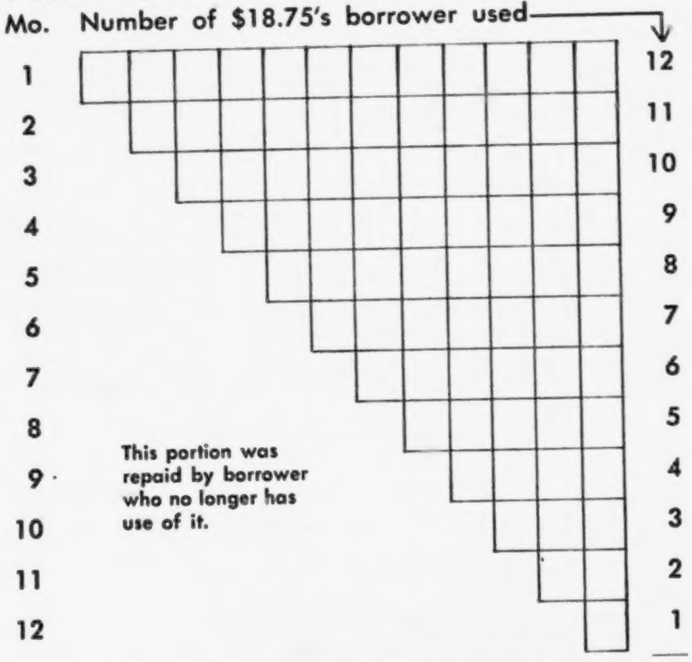
Another way to demonstrate that the consumer does not have the full use of the beginning balance throughout the contract period is to picture a year's time as a composite of 144 blocks, that is 12 units in each of 12 months.

Installment credit contracts require monthly payments or the release of one block each month. So the consumer has the use of 12 blocks, then 11, then 10, 9, 8, 7, 6, 5, 4, 3, 2, and 1 block, or a total of 78 blocks. In the case of our car purchase, my husband and I had the use for the year of not $225 but 78/144 × $225 = $121.88. That is, we had $225 for the first month, $206.25 for the second month, etc., or a total of $1,462.50 for the 12 months, or, as shown in Figure 3, an average use of $121.88 a month.

A shorter method of arriving at the average debt for the year is to add the first and last months' indebtedness ($225 + $18.75) and divide the total by 2, which equals $121.88. This proof, referred to as the Rule of the 78ths or Sum of Digits is shown in Figure 3.

FIGURE 3. Rule of 78ths or Sum of Digits

AMOUNT BORROWED: $225 for 12 months
$225 ÷ 12 = $18.75 repaid monthly
1 block = $18.75


Mo.
Number of $18.75's borrower used
1
2
3
4
5
6
7
8
9
10
11
12
This portion was repaid by borrower who no longer has use of it.

	During Month, Portion of Loan: Being Used: Amount	Part	Repaid and No Longer Used: Amount	Part
12	$ 225.00	12/144	0	$ 0
11	206.25	11/144	1/144	18.75
10	187.50	10/144	2/144	37.50
9	168.75	9/144	3/144	56.25
8	150.00	8/144	4/144	75.00
7	131.25	7/144	5/144	93.75
6	112.50	6/144	6/144	112.50
5	93.75	5/144	7/144	131.25
4	75.00	4/144	8/144	150.00
3	56.25	3/144	9/144	168.75
2	37.50	2/144	10/144	187.50
1	18.75	1/144	11/144	206.25
Sum of the digits = : 78	$1462.50	78/144	66/144	$1237.50

$$\frac{\text{Sum of the digits in dollars}}{\text{Number of Payments}} = \frac{\$1462.50}{12} = \$121.88 \text{ (Average amount borrower used)}$$

EXPLANATION OF DIAGRAM:

1 block = $18.75

12 × 12 = 144 (total number of blocks or entire amount for entire time)

144 (total) − 78 (used by borrower) = 66 returned to lender in payments

78/144 × $225 = $121.88 average amount borrower had use of each month

Formula for Sum of Digits: $\frac{N\,(N+1)}{2}$

In example above: N = 12 blocks

$$\frac{12 \times 13}{2} = \frac{156}{2} \text{ or 78 blocks used by borrower}$$

SOURCE: Morse, Richard L. D. *Consumer Credit Computations*. Columbia, Missouri: University of Missouri, Council on Consumer Information. Pamphlet No. 18, pp. 41-44.

Add-on Rate. Let us return to the example of the car my husband and I purchased. Since the finance charge on the $225 loan was $45, it would have been quoted by the dealer (had he quoted a cost) as a $20 add-on. This means he would add $20 for financing to each $100 borrowed. The finance charge or dollar cost is found by the following procedure:

STEP 1: $20 FC/$100
STEP 2: $225 ÷ $100 = 2.25 units to be financed.
STEP 3: 2.25 units × $20 FC/$100 = $45 total finance charge.

A $20 add-on quotation might mislead a borrower to believe he is paying 20 percent interest, when in fact he would be paying almost double that rate.

Constant-Ratio Formula. By applying the constant-ratio formula to the example, an approximate annual rate of 37½ percent (almost double 20 percent) is derived:

$$\text{Rate} = \frac{2\ (\text{dollar cost of credit})\ (\text{Number of payments in a year})}{(\text{amount borrowed})\ (\text{total number of payments} + 1)}$$

$$\frac{2\ (\$45) \times (12)}{\$225 \times (13)} = .3767 \text{ or approximately } 37\tfrac{1}{2}\%$$

For years, the constant-ratio formula has been recommended as the tool with which consumers could most easily compute the approximate rate charged in installment credit contracts. Creditors in Massachusetts are required by recently enacted truth-in-lending legislation to disclose the annual rate according to the constant-ratio formula.

Actuarial Rate. The actuarial method is more precise than the constant-ratio formula and is commonly used to compute installment payments in real estate mortgages. All creditors are required to use actuarial tables in most provinces in Canada, and the method would prevail under Senator William Proxmire's truth-in-lending bill S.5 or Leonor Sullivan's consumer credit protection act H.R. 11601, both now pending in Congress.

In testimony as a witness in behalf of S.5 and H.R. 11601, Joseph W. Barr, Under Secretary of the U.S. Treasury Department, demonstrated how a one-page condensed version of actuarial tables could easily be used for computing approximate annual percentage rates. The one-page table, which I will refer to as the DoD Table, was first issued by the Department of Defense for use by creditors of military personnel in compliance with Directive Number 1344.7, effective July 1966.

The DoD Table was first made available to members of the armed forces in July 1966. It is now available to all consumers in a Department of Defense pamphlet, through the Kansas Home Economics Association, and appears in the Appendix of this publication with Forms I and II on applicability of the DoD Table. (*1,2,3*)

The DoD Table covers rates from 5 percent to 36 percent for periods up to 60 months. The table is not as precise as the more detailed actuarial tables but it has an acceptable degree of tolerance. The rate intervals are such that the table can be read to the nearest ½ of 1 percent at the lower rate, and to the nearest 1½ percent at the higher rate.

The DoD Table can be used in level payment installment contracts which comprise 95 percent of cases. With modification as shown in Forms I and II in the Appendix, it can be used to find the interest rate in the 5 percent of cases where payments are irregular.

The DoD Table relates these figures:

- The number of payments
- The finance charge and amount financed, expressed as finance charge per $100 or FC/$100
- Annual percentage rate

To use the DoD Table, *read into* the table *two* figures. Then *read out* the *third* figure. The procedure for finding the annual rate is shown above the table (page 175). (Note that the FC/$100 can be found by moving the decimal two places to the left in amount financed and then dividing into the finance charge. In this example the $250 would be 2.50, then: $38 ÷ 2.50 = $15.20, the FC/$100.)

Let us again take the example of the car my husband and I purchased. Using the DoD Table, the annual percentage rate on the $225 loan, on which the finance charge was $45 for twelve months, is found by the following procedure:

STEP 1: To find the FC/$100 the decimal is moved two places to the left in amount to be financed. Therefore $225 appears as 2.25 $100 units. The finance charge of $45 ÷ 2.25 = $20 FC/$100.

STEP 2: Follow down the left column of the table to the line for 12 months. Follow across this line until you find the two numbers between which the finance charge of $20 falls. In this example $20 falls between $19.66 and $21.46. Reading up between the two columns of figures you will see that the annual percentage rate is approximately 36 percent.

Note that the rate is lower than the 37½ percent calculated with the constant-ratio formula. The actuarial rate of 36 percent is more precise. The constant-ratio formula tends to overstate the rate.

The DoD Table can be used to find the finance charge if the rate is known. For example, had we gone to a small-loan company, they might have quoted the rate as 3 percent a month on the declining balance. At 3 percent a month, the annual rate is 36 percent. To find the finance charge on the $225 loan for 12 months read in two figures and read out the third on the DoD Table.

STEP 1: The reading line is opposite 12 payments.

STEP 2: Read across to find the FC/$100 which corresponds to the 36 percent at the top of the table. This is the average of two amounts ($19.66 + $21.46) ÷ 2 = $20.56.

STEP 3: Find the number of $100 units in $225. $225 ÷ $100 = 2.25 units.

STEP 4: $20.56 × 2.25 units = $46.26 approximate finance charge.

Note: This answer differs from the actual finance charge of $45 since the DoD Table is condensed and not as precise as more detailed actuarial tables.

Now let us assume that my husband and I were members of a credit union which offered to lend us the $225 for 12 months at 1 percent a month (actually 12 percent annual rate) on the declining balance. At 1 percent a month the annual rate is 12 percent.

STEP 1: The reading line is opposite 12 payments.

STEP 2: Read across to find the FC/$100 which corresponds to the 12 percent at the top of the table. This is the average of the two amounts ($6.34 + $6.90) ÷ 2 = $6.62.

STEP 3: The number of units is 2.25.

STEP 4: $6.62 × 2.25 units = $14.90 approximate finance charge.

Thus far the discussion has been limited to level-payment and regular installment contracts. The same procedure with modification is used when payments are irregular. Forms I and II in the Appendix can be used to handle any irregular cases. However, only 5 percent of all installment contracts are irregular.

SUMMARY

By using a personal example of a poor "buy" in credit, I have illustrated that consumers need a price tag on credit as well as on goods and services. Furthermore, consumers need to consider the total cost of credit to weigh the advantage of immediate use of goods against the disadvantage of extra cost when buying on time. Consumers also need to know which costs are included in the finance charge so that they are not paying for services they do not need or want.

Since the condensed actuarial rate table issued by the Department of Defense is available, consumers who take advantage of it can easily find the cost of credit. Hopefully, then, the emphasis in consumer credit education will shift from teaching techniques of computing rates and dollar costs to teaching skill and competence in shopping for the best buy in credit.

In my judgment, the demand for consumer education will not decrease with enactment of state and federal legislation requiring disclosure of finance charges and annual rates. On the contrary, the demand will increase. As was the case with us as we shopped for the best buy in a car, many consumers do not see the need for shopping for the best buy in credit. However, if creditors are required to disclose rates that may be higher than consumers expect to pay, consumers will be asking the reason for the discrepancy.

Home economists must be prepared to answer questions raised by better-informed consumers who appreciate the significance of the tools needed to shop for credit. It is a challenge to provide the leadership in teaching consumers to be more sophisticated in using credit.

REFERENCES

1. *Credit—Master or Servant.* 1966. Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402. 25 cents.
2. *Consumer Credit Calculator.* 1967. Kansas Home Economics Association, Department of Family Economics, Kansas State University, Manhattan 66502. 15 cents each, two or more copies, 10 cents.
3. Both the DoD Table and Forms I and II were originally presented as part of this paper. Because of their general application to other credit computations, they have been placed in the Appendix for easy reference. See pp. 175-177.

CONTRACTS AS A GUIDE IN USING CREDIT

JOSEPHINE H. STAAB

A lawyer addressing a class once said, "If consumers spent as much time studying the credit contracts they sign as they do comparing models and styles of the merchandise they buy, consumers would make wiser decisions." His remark stirred my curiosity about contracts covering consumer credit transactions. These are some of my findings as a layman.

The laws governing consumer credit transactions vary from state to state. In order to limit this presentation, I have chosen to illustrate specific points with a sampling of contracts used in Wisconsin by nationwide and local financial institutions. My observations are further limited to an analysis of the information printed on the legal forms used in consumer installment credit transactions. In fact, my comments will be restricted to those documents which are subject to regulation by specific statutes of the State of Wisconsin.

The ideal approach to the subject of consumer credit contracts would call attention to those characteristics of the contract which facilitate intelligent consumer decision-making as well as those which tend to impair such action. However, I shall discuss here some aspects of the contract that consumers are least likely to be informed about or to comprehend in terms of legal meaning and implications.

Let us examine briefly three aspects of the consumer installment contract: (1) the composition of the contract; (2) the format of the contract; and (3) the content as it relates to the expressed rights of sellers and buyers.

COMPOSITION OF CONTRACTS

Because the laws regulating the lending of money are different from those regulating the sale of merchandise on credit, I shall separate the discussion of installment loan contracts from that on installment retail sales contracts. In each case the device or devices used for obtaining a security interest in the personal property of the borrower of money, or the buyer of merchandise, have important legal implications.

Installment Loan Contracts. The number and type of legal instruments used in a consumer installment loan contract are determined by the nature of the security interest specified to insure repayment of a loan. The promissory note may be used independently or in combination with a chattel mortgage. If the promissory note is used independently, the security interest for the loan is provided by the confession of judgment clause within the note. This legal form is called a *cognovit note*. (See Note A at the end of this paper.)

Would rational decision-making be enhanced if the consumer understood that in signing a cognovit note he is

- Authorizing a stranger to appear in court as his personal representative without being informed of the action to confess, or certify, that the indebtedness reported by the lender is the debt of the consumer?
- Agreeing to pay court costs and attorneys' fees in addition to the amount owed on the note?
- Forfeiting his right to challenge the accuracy of the evidence used in the proceedings by releasing the lender and the attorney from any errors in the proceedings?
- Signing away his right to appeal the judgment even though serious errors occurred in the proceedings?

If the promissory note and the chattel mortgage are used in combination as security for a loan, each instrument has printed on it a cross-reference to the other. The chattel mortgage describes each item of personal property mortgaged and reinforces the security interest obtained by the promissory note, which is in fact a cognovit note, except for loans governed by the Small Loan Law. I shall refer to implications of using two legal instruments to secure a loan in other sections of this paper.

Motor Vehicle Retail Sales Installment Contracts. As a result of the implementation of Article 9 (Secured Transactions) of the Uniform Commercial Code, the legal instrument used for a motor vehicle installment credit contract may be an innovation of recent date. New terminology, which has no common law or statutory roots tying it to any particular legal form, was introduced by the Uniform Commercial Code. Since the consumer may be unaware of this development, two of the three motor vehicle installment credit contracts used as examples in this discussion reflect the influence of the Uniform Commercial Code as adopted by Wisconsin.

One instrument, labeled *Retail Installment Security Agreement and Statement of Transaction,* uses a system of cross-reference between the front and back of the page to incorporate the security interest definition. On the front page is the following:

> THIS WRITING, INCLUDING EXHIBIT "A" ON BACK HEREOF, CONSTITUTES THE ENTIRE AGREEMENT BETWEEN THE PARTIES HERETO, THERE BEING NO WARRANTIES OR REPRESENTATIONS OF FITNESS OR MERCHANTABILITY WHICH EXTEND BEYOND THE DESCRIPTION OF THE VEHICLE ON THE FACE HEREOF.

In Exhibit A on the back of the page, one of the 12 provisions explicitly stated as governing the contract is the following:

> Title to and a security interest in the vehicle and all equipment at any time added thereto shall remain and vest in the Seller until all sums due and to grow due hereunder shall be fully paid in cash by the Buyer and Buyer has performed all conditions hereunder.

One instrument, labeled *Motor Vehicle Installment Sale and Security Agreement,* has a paragraph on the face page, which defines the security as follows:

> To secure payment and performance of all Debtor's obligations in this Agreement, and all Debtor's future debts, obligations, and liabilities of whatever nature to Secured Party or Secured Party's assignee ("Obligations"), Debtor grants to Secured Party a security interest in the goods described above and all accessions to, and spare and repair parts, special tools and equipment and replacements for, and proceeds of all or any part of the foregoing ("Collateral").

The legal form labeled *Conditional Sales Contract* uses a cross-reference system for face and back of page to define the security interest which states:

> Undersigned seller hereby sells, and undersigned buyer or buyers, jointly and severally hereby purchase(s), subject to the terms and conditions set forth below and upon the reverse side hereof, the following property, delivery and acceptance of which in good order are hereby acknowledged by buyer, viz:

One of the 11 provisions on the reverse side states:

> For the purpose of securing payment of the obligation hereunder, seller reserves title, and shall have a security interest in said property until said obligation is fully paid in cash.

These three contracts provide some interesting examples of the variation in terminology used, and in the definition of the character and duration of the security interest granted the seller in a motor vehicle installment credit contract:

1. The Conditional Sales Contract limits the character and duration of the security interest to "said property until said obligation is fully paid in cash."
2. The Retail Installment Security Agreement and Statement of Transaction expands the definition of security interest by the inclusion of specific details. It specifies that the security interest includes "the vehicle and all equipment at any time added thereto." It expands the duration of the security interest by specifying that the security interest exists "until all sums due and to grow due hereunder shall be fully paid in cash by the Buyer and Buyer has performed all conditions hereunder."
3. The Motor Vehicle Installment Sale and Security Agreement combines in a single paragraph the purpose of the contract and the definition of the character and duration of the security interest. In addition, the choice of words and word order within the paragraph makes it difficult for the non-legally-educated person to understand the legal meaning of the paragraph.

For instance, "To secure payment and performance of all Debtor's obligations in this Agreement" is an explicit statement of purpose in one sense, but the words *this Agreement* have two separate connotations which are spatially separated on the face page of the document.

First one reads "The undersigned Seller (Secured Party) sells and the undersigned Buyer (Debtor) purchases at the price and on the terms of this Agreement, and acknowledges receipt of, the following goods:". The connotation of *this Agreement* appears to refer to the price and financing agreement reached on the goods purchased.

Then one reads "BUYER ACKNOWLEDGES RECEIPT OF AN EXACT AND COMPLETE COPY OF THIS AGREEMENT WHICH INCLUDES ALL OF THE PROVISIONS ON THE REVERSE SIDE." There are 10 separate categories of provisions on the reverse side under the label ADDITIONAL SECURITY AGREEMENT PROVISIONS. The second connotation of *this Agreement* is explicit.

Between the initial statement of purpose cited above and the definition of security interest, these words are inserted: "and all Debtor's future debts, obligations, and liabilities of whatever nature to Secured Party or Secured Party's assignee ('Obligations')." Does the word *Obligations* in parentheses imply that the capitalized word in this particular position in the sentence differs in its scope of coverage from the word *obligations* written in lower-case letters and used twice in the statement prior to the capitalized word? Could the security interest in the motor vehicle purchased on this installment sales agreement be extended without limitation to future transactions of any type made with the Secured Party or his assignee? Would separate contracts for each credit transaction be eliminated if the buyer signed this new type of document?

The character of the security interest is defined in detail with respect to the goods included and the proceeds of all or any part of the foregoing "(Collateral)." However, no explicit statement of the duration of the security interest is apparent in the paragraph. From a layman's point of view is it not essential that the contract specify either how and when "this Agreement" shall be fulfilled, or how and when the security interest in the "Collateral" shall be terminated, or both?

FORMAT OF CONTRACTS

The format of a contract may contribute to a consumer's ability to understand the legal meaning of the document, as well as his ability to participate effectively in a consumer credit installment transaction.

If the paper on which the contract is written is nontransparent, if the content of the document is printed in a size of type that is large enough to read easily, if the language used to express all the terms and conditions governing the agreement is nonambiguous yet understandable, and if the document can be examined independently to ascertain what is printed on the face page as well as the reverse of that page, then the format of the contract contributes to a full disclosure of its content. Such a format is an invitation to read the contract and to give some thought to its meaning. The use of the information provided by such a document then becomes the personal responsibility of the consumer.

Some recent changes in the format of contracts used in consumer installment credit transactions do not contribute to and even impair the capacity of the individual to comprehend the substance of the contract. Pastel-colored ink used on rather sheer paper lessens the contrast between the printed word and the background. Sheer paper permits print to show through on the opposite side of the page, thus interfering with the readability of the contract. It is possible that a colorblind person could not see, much less read, the information printed in pastel ink.

The size of the type used to print the information on the reverse side of a legal document, and the space between each line of print within a paragraph, are often so small that the eye needs the assistance of either a pacer or a magnifying glass to read the material correctly and in its entirety. Yet the information contained in that part of the contract defines some of the most important terms and conditions governing the contract. Do the size of the type and the placement of terms and conditions on the back of the page tend to create an erroneous impression about the legal significance of the content of this section of the document?

Modern technology has devised sophisticated yet tantalizing prepackaged sets of instruments for use in consumer installment credit transactions. Theoretically, stacking a set of papers with carbon between each sheet so that data written on the first page are duplicated on all other pages in the set is efficient because the same data are recorded on several sheets of paper in one operation. In practice, it's efficient too if each sheet in the bundle is identical to the legal instrument on the first page. However, it is disconcerting for a consumer to discover that the title and content of the pages within the bundle are not the same as the first page of the set. In this case modern technology may be a factor contributing to a consumer's confusion and misunderstanding.

The format of some of the installment loan contracts and some of the retail sales installment contracts makes it legally possible to use these instruments to write a balloon contract. This may not be the intent, but the words printed on the contract are these:

> Final payment equal in any case to unpaid principal and interest
>
> The Final Installment Shall Cover Any Unpaid Balance of Said Loan
>
> Consecutive monthly installments of $______ commencing on_______19___, and each successive month thereafter with a final installment of $______ necessary to complete the total sum due hereunder.
>
> The final installment payable hereunder shall equal the amount of the time balance remaining due . . .
>
> Equal monthly installments of $______ each (and a final unequal installment of $______ . . .)
>
> . . . and an equal amount at consecutive monthly intervals thereafter until paid in full (except that the final installment shall be the amount necessary to pay in full the unpaid Time Balance) subject to the following modification: (If none, write "NONE")

CONTENT AND EXPRESSED RIGHTS OF SELLERS AND BUYERS

The burden of responsibility for understanding all aspects of each legal document signed by the consumer in any installment credit transaction rests with the consumer. Lack of knowledge of the legal concepts used in contracts is widespread. Some of the difficulties inherent in narrowing the legal knowledge gap between borrowers and lenders, and between buyers and sellers, stem from the terminology used and the lack of consistency in the definition of terms.

The acceleration clause is frequently defined as the clause which provides that default in one payment makes all remaining payments due and payable immediately. How many borrowers believe that if each payment is made in full as promised on or before the date the payment is due, that the holder of the installment credit contract cannot legally invoke the acceleration clause against the borrower? How many borrowers think he can? Both answers are correct. It may seem incredible, but the answer depends on how the word *default* is defined in a particular contract.

Default may mean nonpayment of an installment when due, or it may mean a host of other things. Notes B, C, and D at the end of this paper illustrate the multitude and variety of meanings of default and offer some definitions as they appear on promissory notes, on chattel mortgages, and on motor vehicle retail sales installment contracts. These definitions are from the contracts which are regulated by the statutes of Wisconsin.

Let's look at the range in definitions of default. It can mean "If the holder shall deem the debt insecure." However, *insecure* is not defined and apparently may be defined at the discretion of the holder of the contract.

"In the event of a breach of any said warranties," is one of the definitions of default given on a chattel mortgage. The word *warranties* refers to those made by the consumer about the personal property mortgaged. This, however, is likely to be an unfamiliar use of *warranties* to most consumers.

"Default shall exist hereunder" refers to any one of 12 categories of specific events, including the one reading "if the Buyer shall die" on a motor vehicle retail sales installment contract.

The definition of default is very important because the expressed rights of the holder of the contract, in the event the contract is matured through acceleration, are enumerated. The rights and remedies of the holder are described in a variety of ways depending on the type of instrument. Here are some examples:

> Default in paying any installment may be discussed with any present or future employer (a remedy on a note)
>
> Foreclosure of the mortgage (a remedy on a chattel mortgage)
>
> Repossession as stated in these words on a retail installment sales contract: "seller or any sheriff or other officer of the law may take immediate possession of said property without demand, including any equipment or accessories thereto; and for this purpose seller may enter upon the premises where said property may be and remove same."

The diversity in definitions of the word *default,* as well as the diversity in the "remedies" available to the holder of the contract, have particular significance if two forms of legal instruments are used in the same contract. The collective meanings of default and the collective "remedies" available to the holder of a note secured by a chattel mortgage may result in an impressive and comprehensive definition of both the word default and the remedies expressed as rights of the lender.

From the consumer's point of view is it not equally important to know what rights remain as buyer's or borrower's rights? Expressed another way, should consumers understand what legal rights they are signing away as well as which rights they are retaining in each contract they sign?

The acceleration clause is one aspect of the credit contract commonly referred to in most textbooks, bulletins, and pamphlets dealing with consumer installment credit. If a consumer is to achieve understanding of the terminology used in different types of legal instruments to accelerate the maturity of the contract, he may need more than the brief unsophisticated definition generally given.

In some of the emerging legal devices stimulated by the adoption of the Uniform Commercial Code, there seem to be innovations, some of which are in the expressed rights of the Secured Party. Two very provocative ones are these:

> AUTHORITY OF SECURED PARTY TO PERFORM FOR DEBTOR. If Debtor fails to act as required by this Agreement or the Obligations, Secured Party is authorized, in Debtor's name or otherwise, to take any such action including without limitation signing Debtor's name or paying any amount so required, and the cost shall be one of the obligations secured by this Agreement and shall be payable by Debtor upon demand with interest at the rate of twelve percent per year from the date of payment by Secured Party.
>
> NON-LIABILITY OF SECURED PARTY. Secured Party has no duty to protect, insure or realize upon the Collateral. Debtor released Secured Party from any liability for any act or omission relating to the Obligations, the Collateral or this agreement, except Secured Party's wilful misconduct.

This very limited analysis of the information printed on consumer installment credit contracts in Wisconsin may demonstrate how much there is to learn about contracts if consumers are to become informed, intelligent decision-makers in consumer credit transactions. Do you understand the contracts used in your state? Who is helping consumers to develop an understanding of these important legal documents? These are questions which I hope will challenge all who are concerned with consumer credit transactions.

I began this discussion on the basis of a statement made by a lawyer, and I shall close with advice given by the National Foundation for Consumer Credit in their publication *Using Credit Intelligently:* "No consumer need sign anything he does not understand. To be careful is not a sign you distrust your merchant or lender. He will recognize it as your good business judgment."

NOTE A

The Confession of Judgment Clause Used in a Cognovit Note

To secure the payment of this note, the undersigned authorizes irrevocably any attorney of any court of record to appear for the undersigned in such court in term time or vacation at any time after this note is due either through lapse of time or acceleration, as herein provided, and confess a judgment against the undersigned or any of them (if more than one), without process, in favor of the holder hereof, for such amount as may be due on this note, together with statutory costs and statutory attorney's fees, and to waive and release all errors which may intervene in any such proceedings, and consent to immediate execution upon such judgment. The undersigned hereby ratifies and confirms all that said attorney may do by virtue hereof.

NOTE B

Definitions of Non-Payment and of Default on Loan Contracts

DEFINITION 1:

The non-payment of any installment of this note at the time and place specified herein shall, at the option of the Bank, render the entire unpaid balance of this note, less any unearned interest or service charges, due and payable forthwith, without any notice whatsoever, which unpaid balance shall bear interest at the rate of twelve percent per annum from the due date thereof. This note may be prepaid in full or in part; and, upon prepayment in full, the undersigned may receive a partial refund of interest, service charges and credit insurance premium, as required by law.

DEFINITION 2:

Upon non-payment of any payment at its maturity, all remaining payments shall, at the option of the holder hereof, without notice, become immediately due and payable, and the holder may then elect either (a) to waive the default charge, or (b) to give credit or refund of discount as is provided if all unpaid payments were prepaid on the date of such acceleration of maturity and collect the default charge. . . . If the holder shall deem the debt insecure, this note shall, at the option of the holder, without notice, become immediately due and payable in full.

DEFINITION 3:

Default in paying any installment shall, at the option of the holder hereof and without notice or demand, render the total sum remaining unpaid hereunder at once due and payable.

DEFINITION 4:

Default in paying any installment may be discussed with any present or future employer and shall, at the option of the holder hereof and without notice or demand, render the total sum remaining unpaid hereunder at once due and payable.

NOTE C

Definitions of Default on Chattel Mortgage to Secure an Installment Loan

Two-part definition on same page of chattel mortgage:

Mortgagors may possess said property until default in paying any installment on said note or notes secured hereby. At any time when such default shall exist the entire indebtedness secured hereby shall be due and payable either by acceleration of maturity for default as provided in such note or notes or otherwise, this mortgage may be foreclosed, ...

In the event any representations by the Mortgagor be false or if there shall occur a breach of any said warranties, default in the payment of the note secured hereby, or any renewal or extension thereof, or of any other present or future indebtedness of the Mortgagor to the Mortgagee, breach of any other terms or conditions hereof, the commencement of bankruptcy, insolvency, receivership, arrangement, wage-earner's plan, creditors' action, or any similar proceeding affecting the Mortgagor, or if the Mortgagee deems the Property or the debt insecure, in any such event, the Mortgagee may enter the premises of the Mortgagor and may take immediate possession of the Property and remove the same.

* * * * *

Definition on installment loan secured by the chattel mortgage:

In the event of a breach of any of said warranties, default in payment of the note secured hereby, or of any renewal thereof, breach of any other terms or conditions hereof, the commencement of bankruptcy, insolvency, receivership, arrangement, wage-earner's plan, creditor's action, or any similar proceeding affecting the Mortgagor, or if the Mortgagee deems the Property or debt insecure, in any such event, the Mortgagee may enter the premises of the Mortgagor and take immediate possession of the Property and remove the same.

NOTE D

Definitions of Default on Motor Vehicle Retail Sales Installment Credit Contracts

DEFINITION 1:

DEFAULT. Upon the occurrence of one or more of the following events of default:

> *Nonperformance:* Debtor fails to pay when due any of the Obligations, or to perform, or rectify breach of any warranty or other undertaking by Debtor in this Agreement or the Obligations;
>
> *Inability to Perform:* Debtor, or a surety for any of the Obligations dies, ceases to exist, becomes insolvent or the subject of bankruptcy or insolvency proceedings;
>
> *Misrepresentation:* Any Warranty or representation made to induce Secured Party to extend credit to Debtor, under this Agreement or otherwise, is false in any material respect when made; or
>
> *Insecurity:* Any other event which causes Secured Party, in good faith, to deem itself insecure;

all of the Obligations shall, at the option of Secured Party and without any notice or demand, become immediately payable; and Secured Party shall have all rights and remedies for default provided by the Wisconsin Uniform Commercial Code, as well as any other applicable law and the Obligations. With respect to such rights and remedies:

> (a) *Assembling Collateral.* Secured Party may require Debtor to assemble the Collateral and to make it available to Secured Party at any convenient place designated by Secured Party.
>
> (b) *Notice of Disposition.* Written notice, when required by law, sent to any address of Debtor in this Agreement at least 10 calendar days (counting the day of sending) before the date of a proposed disposition of the Collateral is reasonable notice.
>
> (c) *Expenses and Application of Proceeds.* Debtor shall reimburse Secured Party for any expense incurred by Secured Party in protecting or enforcing its rights under this Agreement, including without limitation, reasonable attorneys' fees and legal expenses and all expenses of taking possession, holding, preparing for disposition, and disposing of the Collateral. After deduction of such expenses, Secured Party may apply the proceeds of disposition to the Obligations in such order and amounts as it elects.
>
> (d) *Waiver.* Secured Party may permit Debtor to remedy and default without waiving the default so remedied, and Secured Party may waive any default without waiving any other subsequent or prior default by Debtor.

DEFINITION 2:

Default shall exist hereunder (1) if the Buyer shall fail to pay any part of the purchase price when due, (2) if the Buyer shall or shall attempt to (a) remove or allow removal of the vehicle from the county where the Buyer now resides, (b) sell, encumber or otherwise dispose of this contract or any interest therein or the vehicle or any interest therein, (c) conceal, hire out or let the vehicle, (d) carry passengers in the vehicle for hire, (e) misuse or abuse the vehicle, or (f) use or allow the use of the vehicle in connection with any undertaking prohibited by law, (3) if bankruptcy or insolvency proceedings shall be instituted by or against the Buyer, or (4) if the vehicle shall be attached, levied upon, seized in any legal proceeding, or held by virtue of any lien or distress, or (5) if the Buyer shall make any assignment for the benefit of creditors, (6) if the Buyer shall fail to pay promptly all taxes and assessments upon the vehicle or the use thereof, or (7) if the operator's license of the Buyer or the registration certificate issued for the vehicle shall be suspended or revoked, or (8) if the Buyer shall die, or (9) if the vehicle is damaged or permitted to remain in a damaged condition for one month after the occurrence of accident causing said damage, or (10) if the holder with reasonable cause determines that its interest in the vehicle be in jeopardy, (11) if Buyer should fail to keep the vehicle suitably insured, or (12) if Buyer is presently employed by Seller and shall for any reason whatsoever be no longer employed by Seller. In the event of default by Buyer hereunder the entire unpaid balance of the time sale price shall, at the option of the Seller, become immediately due and payable; provided however, that Buyer may redeem a repossessed vehicle by timely tender of an amount complying with Article 9-506 of the Wisconsin Uniform Commercial Code. Upon default Buyer agrees upon demand to deliver the vehicle to the Seller, or the Seller may with or without legal process, and with or without previous notice or demand for performance, enter any premises wherein the vehicle may be, and take possession of the same, together with anything therein. Thereafter the Seller may, if permitted by law, retain the vehicle as its property or may sell same pursuant to the law as of Wisconsin, whereupon the Buyer agrees to pay any deficiency upon demand. While removing the vehicle from point of repossession to Seller's place of storage, Seller may use Buyer's license plates.

DEFINITION 3:

In the event buyer defaults in any payment due hereunder, or fails to comply with any of the terms or conditions hereof, or a proceeding in bankruptcy, receivership or insolvency instituted against the buyer or his property, or the seller deems the property in danger of misuse or confiscation, or in the event either that the buyer fails for any reason to comply with paragraph 3(a), above, or that said required car insurance (whether procured by the seller or by the buyer) is cancelled by the insurer prior to expiration thereof, the seller shall have the right, at his or its election, to declare the unpaid balance, together with any other amount for which the buyer shall have become obligated hereunder, to be immediately due and payable. Further, in any such event, seller or any sheriff or other officer of the law may take immediate possession of said property without demand, including any equipment or accessories thereto; and for this purpose seller may enter upon the premises where said property may be and remove same. Seller may take possession of any other property in the hereinbefore described motor vehicle at time of repossession, wherever such other property may be therein, and hold same temporarily for buyer without liability on the part of seller. Such repossession shall not affect seller's right, hereby confirmed, to retain all payments made prior thereto by the buyer hereunder.

In the event of repossession of said property the seller shall have the rights and remedies provided and permitted by law including the right to apply the proceeds of disposition to the reasonable expenses of retaking, holding, preparing for sale, selling and the like, reasonable attorneys' fees, legal expenses incurred, and satisfaction of indebtedness. Any surplus shall be paid to the buyer or as otherwise required by law. The buyer shall be liable for any deficiency.

The requirement of reasonable notification of the time and place of any public or private sale or other intended disposition shall be met if notice thereof is mailed, postage prepaid, to the buyer and any other person entitled thereto ten (10) days prior to such sale or other disposition of the property.

BUDGET GUIDES

FAITH CLARK*

The idea of making a budget comes to many families only after they are so far in debt that they have trouble meeting the monthly installments. In their requests for budgeting help, these families—and others—often ask just what percentage of their income they should spend for food, rent, clothing, and other budget categories, and perhaps even how much credit they should be able to carry.

Because there is no formula to give these families, this discussion will be on budget guides that are available—their makeup, uses, and limitations. It will also touch on some research in progress in the U.S. Department of Agriculture that will provide data useful to those concerned with budgets in social welfare programs.

PREPARED BUDGETS

"Prepared," "constructed," or "standard" budgets have been developed by many agencies and groups in situations where the question "How much does it cost a family to live?" has been asked. We will discuss only a few of these budgets.

U.S. Department of Agriculture Food Budgets. The U.S. Department of Agriculture provides the estimated cost of food at home at several cost levels in its food plans. Costs are based on low-cost, moderate-cost, and liberal food plans which suggest amounts of food in 11 food groups that together provide a nutritionally adequate diet. Plans and costs are given for men and women and boys and girls of different ages. A food budget for any family can be made by adding together the costs for persons in that family, using the food plan cost level best suited to the family's income and needs. Many welfare agencies use the low-cost plan in establishing money allowances for food.

The food plans are revised from time to time as knowledge of nutrition, food habits, food supplies, and food costs change. The Department of Agriculture uses the National Research Council's recommended dietary allowances as standards of nutritional adequacy. Also considered are food habits, tastes, and expenditures of families at different income levels as shown by food consumption surveys. Data from the 1965-66 food consumption survey will be used to revise the current plans, which are based on the 1955 survey.

The cost of food in the USDA food plans is updated every three months, using prices collected by the Bureau of Labor Statistics. The costs are published quarterly in *Family Economics Review* and are available also as a separate mimeographed sheet. Once a year food costs for each of the four regions of the United States are calculated by the Consumer and Food Economics Research Division of the Agricultural Research Service, USDA. These appear in the March issue of *Family Economics Review* which publishes new or additional information about the food budgets from time to time.

Budgets of the Bureau of Labor Statistics. The U.S. Bureau of Labor Statistics publishes a City Worker's Family Budget which gives estimated living costs for a family of four, made up of an employed husband, a wife not employed full time outside the home, a boy of 13, and a girl of 8. Cost estimates for the current budget at autumn 1966 prices are given for each of 39 metropolitan areas, for nonmetropolitan areas with population from 2500 to 50,000, and for urban United States as a whole. With this Budget the Bureau publishes a scale for estimating budget costs for families of different sizes, ages, and types.

The City Worker's Family Budget provides for a moderate standard of living in terms of standards prevailing in the 1960's. The quantities and qualities of goods and services used in the budget are based, where possible, on standards of adequacy as defined by scientists and experts and translated to reflect actual buying practices of families. Where scientific standards were not available, the budget items were based on analyses of the consumption and spending of budget-type families, as shown primarily by data from the 1960-61 Survey of Consumer Expenditures.

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* Prepared in collaboration with Emma G. Holmes, Research Family Economist, Consumer and Food Economics Research Division, Agricultural Research Service, U.S. Department of Agriculture.

A new Bureau of Labor Statistics Retired Couple's Budget, also based on autumn 1966 prices, is to be released some time in the future. It will represent a moderate standard of living for a self-supporting husband and wife aged 65 or over, not employed, but in reasonably good health and able to take care of themselves.

The Bureau is also developing budgets for living standards that are lower and higher than the moderate standard of the City Worker's Family Budget. Cost estimates for these two budgets will be based on spring 1967 prices. Of these two budgets, the lower-standard budget might be considered "minimum adequate." It will provide for health, efficiency, and social well-being, but will be lower than the standard of the City Worker's Family Budget in content and manner of living where this is possible without endangering the family's physical health or self-respect as members of their community. This lower standard budget is expected to be similar to the standards often considered appropriate as goals for assistance and income-maintenance programs.

The higher standard budget will reflect the standard associated with the so-called "American standard of living." It is expected to be appropriate for determining the ability of self-supporting families to pay for fee services, and for determining the eligibility of students for scholarships.

The City Worker's Family Budget and the Retired Couple's Budget are useful for evaluating the general adequacy of the incomes of groups of families in terms of current standards. They are also useful in measuring differences in living costs among cities and areas, and among different types of families. They provide guides for social and legislative programs dealing with wages, prices, credit, public assistance, and taxes.

The City Worker's Family Budget and the Retired Couple's Budget do not show how the "average" city worker's family, or the "average" retired couple spend their money. They do not show how families should spend their money. They are not based on family income. Do they have any value, then, as a budget guide for an individual family? They may possibly be used as a general reference for the family that needs guidance in setting up a budget. They give an idea of the many budget items to be considered and their relative importance. They may also help families who are moving to a new city to estimate differences in living costs.

Other Prepared Budgets. The Family Budget Standard of the Community Council of Greater New York is another well-known prepared budget.

The standard of living it represents corresponds to that of the City Worker's Family Budget. It provides a measure of the cost of living in New York City for self-supporting families of any size and composition. The list of goods and services needed to maintain the standard is priced each year. Like the City Worker's Family Budget, the Family Budget Standard is not a blueprint for individual family spending. It is used (1) to assess income adequacy and family use of money; (2) as a basis for establishing fee scales for services of welfare and health agencies and to determine eligibility for free services; and (3) to help in counseling families on money management.

Another type of prepared budget is the budget used to determine the amount of grants or allotments needy families are allowed by welfare agencies. This type of budget varies widely from community to community.

OTHER BUDGET GUIDES

Average Expenditures of Groups of Families. Families who are planning their first budget need to keep a record of their expenditures for a while in order to have a guide for setting allowances for budget categories. An alternative is to study the expenditures of other families instead of taking time to study their own. This may be quite helpful if they choose families similar in size, income, and other characteristics to their own, and if they allow for differences in goals and preferences.

Data on average expenditures of groups of families are available from the Consumer Expenditure Survey of 1960-61, conducted by the U.S. Department of Agriculture and Bureau of Labor Statistics. The Survey gives information on dollar expenditures for the budget items, and on spending patterns—that is, the percentage of each family-living dollar devoted to each budget item.

Another guide is the revised edition of a teacher-leader publication, *Helping Families Manage Their Finances,* now in press. This publication includes several tables based on the 1960-61 Consumer Expenditure Survey showing how various groups of families spend their money. It gives average expenditures and spending patterns of urban, rural nonfarm, and farm families of different sizes and types and incomes, with heads of different ages and education, and living in different regions. Families can use the average for families with characteristics similar to their own as a place to start. They will find it helpful to know how the "average" family spends to get some idea of what they may need to allow for various items in their own budgets.

In another approach to budgets, *Changing Times* magazine offers a computer print-out from the 1960-61 Consumer Expenditure Study showing average expenditures of families with characteristics similar to those of the family ordering it. The family sends with its order information about its income, place of residence, size, information about the head of the family, home tenure, and number of earners. It receives a table showing average amounts that similar families spent for 18 budget items including food, clothing, fuel, household operation, insurance, and so on. A similar computer service has been offered by a bank in Pittsburgh.

General Guidance Materials. The U.S. Department of Agriculture has prepared three budget guides in addition to the food budgets. For beginning families there is *A Guide to Budgeting for the Young Couple.* For those a little farther along in the family cycle *A Guide to Budgeting for the Family* is offered. These materials offer simple step-by-step directions for planning and carrying out a spending plan. They give no set formulas for dividing the income among budget items. Instead they try to help the family think through its own goals, needs, and wants, and make a workable plan. They include suggested forms to use in setting up the budget and recording expenditures. A third guide is the more complete *Helping Families Manage Their Finances,* mentioned above, which is meant for use by teachers and other leaders in working with families.

In addition to these, the Federal Extension Service of the U.S. Department of Agriculture has prepared for low-income families *Managing Your Money . . . A Family Plan.* General budgeting guides are available also from many State Extension offices, financial institutions, and business sources.

CREDIT IN BUDGET GUIDES

The budget guides mentioned thus far offer no "rule of thumb" to tell families how much credit they can safely carry, for the same reason that they give no formula for dividing income among the budget categories; that is, there is no magic rule that fits all cases. The guides do, however, give some information about consumer credit that may help families decide whether they will use it and in what way. For example, *A Guide to Budgeting for the Family* mentioned above includes a reminder that credit does cost money and that this cost deserves careful consideration, the same as any other budget item. It lists some common installment credit rates for loans of different types and from different sources, and tells how to determine roughly how much the credit charges on individual purchases will amount to.

These budget guides also remind families to make payments on installment debts a definite part of the spending plan, whether the payments are for purchases made in the past or for those anticipated during the budget period. They suggest a review of the spending plan from time to time to check actual expenditures against planned expenditures and to revise the plan as wants and circumstances change. Such a review is particularly needed when the family is considering an installment purchase that was not planned for when the budget was set up.

Since a budget, to be useful, needs to be flexible enough to make some allowance for the unexpected, consideration should be given to the fact that installment debt makes for a certain amount of inflexibility. The more money a family has committed to installment payments, the less leeway it has for making budget adjustments when income is cut by unemployment, illness, loss of the wife's job, or any other emergency requiring a large expenditure. At such times the family with large credit commitments has the added worry of keeping up these credit contracts and of what will happen if it does not.

RELATED RESEARCH

The U.S. Department of Agriculture has no budgets for farm families comparable to the Bureau of Labor Statistics City Worker's Family Budget and the Retired Couple's Budget. However, in progress are estimates of income needed to provide equivalent levels of living to farm, rural nonfarm, and urban families. The estimates are expected to be especially useful in reviewing the relative poverty yardstick for farm families now being used by the Office of Economic Opportunity.

These estimates will also provide a means of adapting the Bureau of Labor Statistics budgets for city families to farm and rural nonfarm families. They will not provide a comparable list of goods and services needed by rural families but will indicate the distribution of income among the major types of outlays.

The Department of Agriculture has developed preliminary estimates of the cost of rearing a farm child to age 18 in the North Central and Southern Regions, at the three spending levels associated with the food plans. Revised estimates for the farm child and estimates for urban and rural nonfarm children are also being prepared. Costs will be given for children in different sizes of families as well as the average family, and for the major budget categories as well as the total budget.

Also in progress at the Department of Agriculture are clothing budgets. Within the next year, the Department expects to have clothing budgets for farm, rural nonfarm, and urban families in the North Central and Southern regions. These clothing budgets will represent the same levels as the food plans and the consumption patterns shown by the 1960-61 Consumer Expenditure Survey—that is, they will represent the practices of families whose average food consumption is at the level of the food plans. Like the food plans, the clothing budgets will be available for men and women and boys and girls of different ages.

SUMMARY

The budget guides available for family use are just that—guides rather than instant formulas. They may remind the family of factors to consider in making a spending plan, suggest steps to take in setting up and carrying out a budget, point out how the "average" family distributes its income, give some general guidelines for using credit, and recommend places to go for personal counseling on special money problems.

Budget guides assume that for most families the budget most likely to work is one they have set up themselves. The decisions about how income is to be allocated, what purchases are to be made with credit, and what responsibility each person has in carrying out the plan are, in the final analysis, their own.

REFERENCES

1. Budget guides prepared by the Consumer and Food Economics Research Division, U.S. Department of Agriculture. (Some of these are available free, others are for sale only. Order each by title and number from the source under which it is listed. Include Zip Code with return address.)

   a. Single copies of the following are available free from the Office of Information, U.S. Department of Agriculture, Washington, D.C. 20250:

      Food for Families with School Children, HG No.13

      Food Guide for Older Folks, HG No.17

      Food for the Young Couple, HG No.85

      Family Food Budgeting . . . For Good Meals and Good Nutrition, HG No.94

      A Guide to Budgeting for the Young Couple, HG No.98

      A Guide to Budgeting for the Family, HG No.108

   b. Single copies of the following are available free from the Consumer and Food Economics Research Division, U.S. Department of Agriculture, Federal Center Building, Hyattsville, Maryland 20782:

      Sample Menus and Food Lists for One Week Based on the USDA Economy Food Plan, CA 62-20

      Family Economics Review, ARS 62-5. (A quarterly publication. Includes the cost estimates for the USDA food plans and other information related to budgeting. Mailing list limited to extension workers, college and high school teachers, and other professional workers.)

c. The following are for sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402:

Food for the Family With Young Children, HG No.5, 10 cents.

Family Food Plans and Food Costs, HERR No.20. (A technical publication for teachers and adult leaders.) 35 cents.

Helping Families Manage Their Finances, HERR No.21, 40 cents.

2. Bureau of Labor Statistics Budgets. Summaries of the budgets and budget materials listed below are distributed free when they become available. Send a list of the summaries you wish to the Bureau of Labor Statistics, U.S. Department of Labor, Washington, D.C. 20212:

City Worker's Family Budget for Moderate Standard of Living; Cost Estimates for Autumn 1966

Retired Couple's Budget for a Moderate Standard of Living; Cost Estimates for Autumn 1966

Three Standards of Urban Living for a 4-Person Family; Cost Estimates for Spring 1967

Three Standards of Urban Living for a Retired Couple; Cost Estimates for Spring 1967

Average Prices for Selected Cities and Techniques and Specifications for Standard Budget Pricing

Revised Scale of Equivalent Income or Budget Costs

3. *A Family Budget Standard.* 1963. Budget Standard Service, Research Department, Community Council of Greater New York, 225 Park Avenue South, New York, New York 10003, $3.00. (The Annual Price Survey, giving October 1967 costs for the Budget Standard, is available for $2.50.)

4. "Check Up on Your Family Spending," *Changing Times,* April 1967, pp. 48, 49. (April issue available for 50 cents from *Changing Times,* 1729 H Street, N.W., Washington, D.C. 20006.)

5. *Managing Your Money . . . A Family Plan.* Federal Extension Service, U.S. Department of Agriculture. 1964. (Available from Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402, 10 cents.)

THE OBSTINATE AUDIENCE: TEACHING THROUGH MASS MEDIA

FAITH PRIOR

A legendary ad-man of the 1920's used to say, "Every copywriter should have this slogan pasted up where he can see it: THEY DON'T WANT TO READ IT."

The same slogan ought to be branded on every educator who approaches the usual channels of the mass media to teach the public about credit: THEY DON'T WANT TO HEAR IT.

As educators, you and I were brought up to believe that for every subject there is a "teachable moment," and that for each person the teachable moment arrives when he has a relevant problem. I am inclined to disbelieve that rule when the subject is money.

Sit down next to a stranger for a two-hour plane trip and you may end up knowing that his wife doesn't understand him and that his friend in Miami Beach likes gin and milk for a nightcap. But the chances are you won't learn that he still owes $2500 on his new convertible and that he has been overdrawn at the bank four times in the past six months. He has a problem (at least one), but I doubt that he is at a "teachable moment."

A young housewife finds it socially acceptable to admit that she can't cook and that housework is never done; but her inability to manage money is more personal, more painful, and therefore more concealed.

Obviously, the reason we have turned to the mass media for teaching of any kind is that through radio, television, and newspapers we can extend our professional presence through otherwise impossible distances of time and geography, and to strata of potential audiences we could never hope to lure into a classroom or meeting.

Repeated exposures to mass media can do two things:

1. They can help people become motivated to learn more about a subject through other educational means, including television's classroom-type programs; and
2. They can convey brief segments of subject information and build up the habit of receiving information as well as entertainment from the media.

Of these two goals, I should like to talk more specifically about the second, reaching the "uninvolved" audience with information which they have not solicited, and may perhaps reject(*1*). I worry more about the casual viewers, listeners, and readers. An audience which "attends" a television classroom would probably also attend special interest groups, short courses, even classes for academic credit; the use of the media simply makes participation more convenient for them and for us.

But teaching (and "teaching" may be too formal a word) via the media can reach an audience not likely to deliberately expose themselves to a learning situation. In its use we have to somehow "make a bridge between the genteel culture of college education and the vulgar anticulture of the mass media and the street"(*2*). To make this "bridge" we must face some facts.

Those of us who teach were largely brought up on the morality of difficulty. What was self-indulgent must be wicked—or at least suspect. Thrift, self-denial, and make-do were our shield and buckler against the rainy day that someone kept seeing in our futures.

But the people we would like to reach today with the whole gamut of information about management are not, for the most part, our contemporaries.

Over three-fourths of today's population had no adult experience with the stock market crash, prohibition, or a world without Social Security. Two-thirds had no experience with World War II. Almost 95 percent missed World War I, and over half the present population were children, or not yet born, when Sputnik I burst on the world 10 years ago. If we approach this audience, who have shared so few of our experiences, with our personal dogma about credit (or almost anything else), the chances are we'll end up talking to ourselves and a few of our peers who stick around for old times' sake.

In addition to this obstacle of time, during these past affluent years, the image of the "economic man" has dimmed considerably.

Beatrice Paolucci, in a guest editorial in *Focus,* said: "In the past, the assumption has been that if families were given information . . . they would use this information to make rational choices, that is, choose to maximize outcomes. Going on this assumption, educators saw their role as one of making information available for decision-making." But now, Dr. Paolucci goes on to say, choices are "more a matter of changing values and goals than selection of the 'best' alternative."(*3*)

We have been conditioned, mostly through the media of the marketplace I might add, to respond to the message which has, not the most logic, but the most appeal. The media know all about this kind of appeal; it has been their stock in trade.

As teachers, it has not been ours.

USING MEDIA TO TEACH

When I was in college, my physiology professor was ill one day and we had the head of the department as a substitute. The department head has since gone on to become a university president, but what I remember solely from that lecture was the handsome diagrams he put on the board, using both hands simultaneously to do the two unlike sides of the drawing.

A couple of years ago I was chairman of a meeting at which I had to introduce this one-time department head. I recalled the ambidextrous episode, to which he replied, "I used to think that education was 90 percent information and 10 percent showmanship. Over the years I have come to reverse my percentages."

The would-be teacher-showman must be willing to sacrifice the professional lectern for a professional air of sociability. Through the media we become not teachers in a classroom (all too many of our potential audience are justifiably suspicious of classrooms), but guests in people's homes. Guests do not lecture, they talk. The more meaningfully and provocatively they talk, the more often they are asked back.

Apart from a handful of people in our audience with a professional interest in the subject (who would probably choose an abacus over a color television for entertainment), we might as well start with the assumption that we are aiming to bring information about credit to people for whom the subject of credit has all the natural appeal of 6 months of unpaid bills.

Beyond this common characteristic, we need to know something about whom we hope to reach with what information. Writer-critic Cleveland Amory, in May 1967 in Atlanta, told American Women in Radio and Television, "Educational television has at least one cardinal virtue. It does not operate on the incredible theory that either everything must be for *everybody* or for nobody."

The cave man, we were taught, inscribed on the walls of his cave, drawings of the animals he hoped to drag back at the end of the hunt. We need to form a similar picture of the audience we are hunting. How much do they earn? How do they spend it? What are their real problems? What do they think their problems are? How old are they? What kind of economic experiences have they had? (Remember, for them a depression is only a bogeyman created by puritanical parents.)

And let's not be unaware of our competition as "performers." It may be a hungry family or a leaky washing machine. We've got to be pretty good to compete with "The Secret Storm," a neighborhood kaffee-klatsch, or even "buy it today at your local dealer's."

Educational and economic levels still line up somewhat with the teacher's choice of media: there is still a certain prestige in print, a certain glamor in electronics. While it is probably neither possible nor desirable to aim toward a discrete category, a teacher can play the art patron as well as the artist by selecting media with which to appeal to varying audiences. If you are not successful in building a faithful audience, you'll know.

Bernard Baruch said that a political leader must keep looking over his shoulder all the time to see if the boys are still there. If they aren't still there, he is no longer a political leader. The same thing is true for teachers, especially for teachers in the never-never land of the mass media.

Silence from the public is a danger signal. Only when we hear regularly and spontaneously from a whole cross-section of people can we be sure we're doing something right. In the classroom, the teacher is aware of legs being recrossed, at times even a gentle snoring, but the performer in the mass media doesn't hear the clicking of "Off" buttons, the turning of newspaper pages.

I use the term *performer* advisedly. The teacher must be willing to become a personality, knowable, believable, and visible.

I have said that the successful performer hears from audiences regularly. The audience should also hear from the performer with regularity. Unfortunately, this means commitment; a weekly appearance here, a monthly appearance there, press deadlines to meet. However, building your own personal audience is basic to effective work in the media.

TEACHING THROUGH PRINT

Let us now consider newspapers as a teaching medium.

Marshall McLuhan says that the world of print is dead—and goes on writing book after book to prove it. The world of print is not dead, but it certainly contains some pretty cadaverous pieces of prose embalmed in the name of education.

If you have something worth writing about, find a way to give it immediacy. Read. Don't always read for depth and understanding; learn to skim all kinds of unlikely sources, they'll provide leaven for your loaf.

Find some fresh words. Read Rudolph Flesch and use of him what you remember. Ignore the limitations of vocabulary studies. Explain a word if you must, but use it if it's the one you want. There's nothing like just the right pointed word with which to jab people in their round little generalities.

Relax your style. Kid your subject a little, sometimes. View it with alarm. Raise controversial issues (judiciously exposing at least some of both sides if the confines of your job require it). (Speaking of controversy, I understand that "activist" is a naughty word in some circles, but personally I believe that the best teachers I ever had were the ones whose opinions I still remember along with, and often better than, their subject matter.)

Controversy makes people get things clearer in their own minds. It builds readership. And it's more fun.

TEACHING THROUGH RADIO AND TELEVISION

Radio is limited as a real teaching medium, but it can stir up seeds of interest and is a useful tool for communicating items quickly. My practice is to do a weekly radio tape cut down from a weekly newspaper column; I don't expect it to do much except to hold an audience and perhaps get a point or two across in a personalized way.

Personalization is important. Listen to an old tape, a month or so after you've made and forgotten it; is it spontaneous and fresh, or tired and pedantic? Don't be afraid to ham it up a little.

This last sentence brings us to television.

"Use more visuals!" we are told. For the moment, forget the charts and graphs and think about yourself. You are the "visual" the audience sees first, last, and most. If you're over 30, sneaking a look at yourself in the monitor can be pretty traumatic.

The best television advice I ever got was to buy some professional television makeup and learn to use it. Get somebody to work with you off air but on camera to find out how much eye makeup you can stand. In the flesh you may look like a fallen woman, but on television it will be reassuring to both you and the audience to look as though all that book-learning hasn't done you a bit of harm. And if you're a man with an early five o'clock shadow, television without makeup will put you right into the cast of "The Untouchables."

PREPARING MATERIAL

Essentially the same material can be used in all of the media. Sometimes I do a column and then adapt it for television and radio. Sometimes I start with the television script. This intermedia exchange gets a good deal of mileage out of the same basic piece of work and reaches different audiences.

It was a discovery to me to find that there seems to be little, if any, overlap of audiences. If people miss a story one place, they catch it in another. When minor overlap occurs, it simply serves to emphasize the information. Audiences, one finds, like junior high students, simply don't get things the first time around.

I would like to share a "secret weapon" or two. One is that I have a family of three teenagers, a condition that makes it virtually impossible to get out of touch with the times. If I weren't thus blessed, I'd try to find a proxy family to give me the same insights.

The second "weapon" is an approach that more and more hitherto academically respectable people are discovering. My 15-year-old daughter who is not the hardest working academician in the world (except on projects such as how many quarts of oats to feed a Morgan foal) came home last fall delighted with her new high school French teacher. "I haven't listened in French class for three years," she said, "but this year I have to, *because the teacher says funny things in French and I don't want to miss them!*" (Italics mine.)

According to *Printer's Ink,* one advertising agency has made the same discovery about humor in copy directed to physicians, who probably receive more promotional material than any other professional group. This departure from staid advertising uses humor in the approach, while the body of the copy remains informative. Medicine is a life and death business, but the agency has acknowledged that doctors are people.

Arthur Schlesinger, Jr., writing about Marshall McLuhan's book, *The Medium Is the Massage,* says: "The print culture, fighting a rearguard action, is doing its best to absorb the electronic culture, to force the new media to do the work of the old. . . . How to precipitate our official culture, so hopelessly enslaved in the Gutenberg galaxy, into an awareness of the new environment?" Humor, in McLuhan's view, provides our most appealing tool.

Arnold Gingrich, publisher of *Esquire,* wrote in *Advertising Age:* "Words will always count, and computers are marvelous, but they kiss not, neither do they cook. . . . You can get a computer to say 'I love you,' but you can't program it into saying it with feeling."

Two secret weapons. Laughter and feeling.

All of this is as applicable to the teaching of credit as the teaching of anything else. Those of us who teach about credit just have to work a little harder because, as we all know, "they don't want to hear it."

At the end of my paper are examples of ways in which I use the public media in a small state with a minimal staff. These are not slick or polished examples, and they appear just as they were used. I hoped, in the television tape, to make just two points; to do this I was willing for the audience to know that credit cards make buying too easy for me, too. We used a little humor, and a little irreverence, so that people would bear with us. The column and the radio script came directly from the television material.

I have found formats that I am comfortable with and that seem to work for me. The same ones may not work for you, because the format you evolve for media work should be very personally yours, something that works for both you and the audience, and for which you can face years of deadlines.

And lest any of us be tempted to think only in conventional lines, here is a story about our janitor. We have had, for the last year or so, a most accommodating and pleasant man working in our office building. One Saturday morning I came to the office and found him going through my wastebasket, meticulously and without embarrassment. Beside him was a growing stack of papers which, he assured me, he was going to take home and read.

"I told my wife," he said, "that I'd never learned so much as during the time I've been working in the home economics building. Why, just cleaning Mrs. Prior's office is an education in itself!"

I hope that the time will come when we will do a good enough job in the classroom that students will not have to get their practical education from wastebaskets.

REFERENCES

1. For an excellent description of a coordinated program using the mass media to reach professionals for training and to extend professional presence to organized groups (and incidentally to casual commercial-station viewers) see "Coordinated Mass Media" by Edward Metzen and Mary Johnson in *Extension Service Review,* July 1967.
2. Denney, Reuel. *The Astonished Muse.* New York: Grosset and Dunlap, Universal Library, 1964, p. vi.

(Supplementary material on next page.)

EXAMPLES OF USE OF PUBLIC MEDIA

1. A Newspaper Column

DOLLARS AND DECISIONS
by Faith Prior
Extension Family Economist
University of Vermont

Been to Any Good Bankruptcies Lately?

I ran into a friend downtown shopping the other day and since neither of us could buy a pair of shoes—she because the clerks keep telling her that her feet are too big, and I because I'm still hoping that one shoe buyer might have stocked some shoes not designed for teenagers wearing miniskirts and casting shadows three quarters of an inch wide—we sat down and had a cup of coffee and decided to forget about the shopping anyway.

"I feel *good,"* she said, biting into a fresh glazed doughnut. "I feel good because today I canceled 14 charge accounts—14, imagine!—and from now on I'm going to have the feeling that when I'm spending money, it's *real* money and that there's a limit to it. I'm through carrying credit cards—with me it's like drawing the devil for a bridge partner—it's just too darned tempting to cheat."

Just for fun I counted up the number of cards I carry myself.

Eleven.

I wouldn't have believed it.

All the way from the one I use at the gas station to the one I am supposed to be clutching when they stretcher me into the hospital's emergency entrance.

A Dr. John Battles has started using a new medical term—the credit card syndrome—to describe the symptoms suffered by certain holders of too many credit cards. One of his patients, a lawyer, had for several years suffered pain over the left hip and down the leg. The doctor found that the man's wallet had grown fat with credit cards, and that removal of the wallet from the hip pocket brought relief from the symptoms; reinsertion reproduced them.

Some of us find excess credit more like a pain in the neck.

We Americans are using them at a rate that increases every day, as businesses find ways to make credit attractive and available.

When we were youngsters—you and me and my friend whose feet are too big—owing money was a very worrisome thing. A mortgage on the family home, maybe, but anything else was a sign of irresponsibility except in the most dire crisis.

Thrift was the key word, the very rock on which the American production economy was built.

The fact is that we built a production economy so well that the next necessity was to build a means by which the people could buy new products in ever-increasing quantity and variety.

The answer was credit.

In spite of our unprecedented prosperity over the past 20 years, personal bankruptcies have skyrocketed. Just over 11,000 in 1945, more than 163,000 in 1965—almost 16 times as many.

This is a great period for buying convenience, and one of the conveniences we buy is that of not carrying cash. Not only does this eliminate the feeling of funds dwindling from the pocket, but we tend to reckon prices without including the cost of credit. It can be sizeable—an average of 12 percent on a new car, 18 percent on a revolving charge account. It's difficult, almost impossible, to find the true annual interest rate on credit charges, as it is an almost universal practice to keep the buyer's mind focused on the "small monthly payment" rather than the actual cost of buying on time.

A curious business, and one which is, at long last, being held up to scrutiny in high places.

Yet the credit card industry is only 17 years old.

On a February evening in 1950 a credit specialist named McNamara was working late in his New York office, had dinner in a strange restaurant, and found he had misplaced his wallet. Faced with an evening of washing pots and pans, he phoned his wife who arrived from Long Island two hours later with the money. Next day, over lunch with his lawyer, the idea for the Diner's Club was born.

In the credit card industry, McNamara's dinner is irreverently referred to as The First Supper.

And credit has been dining high on the hog ever since.

2. A Weekly Radio Column (3 minutes)

This is Faith Prior, with Dollars and Decisions.

I ran into a friend downtown shopping the other day and since neither of us could buy a pair of shoes—she because the clerks keep telling her that her feet are too big and I because I'm still hoping that one shoe buyer might have stocked some shoes not designed for teenagers wearing miniskirts—we sat down and had coffee and decided to forget about the shopping.

"I feel good" she said, biting into a fresh glazed doughnut. "I feel good because today I canceled 14 charge accounts—14, imagine! From now on I'm going to have the feeling that when I'm spending money it's *real* money, and that there's a limit to it."

Just for fun I counted up the number of credit cards I carry myself. Eleven. All the way from the one I hand over at the gas station to the one I am supposed to be clutching when they stretcher me into the hospital's emergency entrance.

One doctor is using a new medical term—the credit card syndrome. A patient of his, a lawyer, had for several years suffered pain over the hip and down the leg. The doctor found that the man's wallet had grown fat with credit cards, and that removal of the wallet from the hip pocket brought relief from the symptoms; reinsertion brought them back.

Some of us find excess credit more like a pain in the neck.

When we were youngsters, owing money was a very worrisome thing. A mortgage on the family home, maybe, but anything else was a sign of irresponsibility, except in the most dire crisis. Thrift was the key word, the very rock on which America's production economy was built.

The fact is that we built a production economy so well that the next necessity was to build a means by which people could buy the new products in ever-increasing quantity and variety.

The answer was credit.

Bankruptcies have skyrocketed in the past 20 years—16 times as many in 1965 as in 1945, in spite of our unprecedented prosperity.

This is a great period for buying convenience, and one of the conveniences we are buying is that of not carrying cash. Not only does this keep us from feeling the money dwindling in the pocket, but we tend to reckon prices without including the cost of credit.

And we Americans are using credit at a rate that increases every day, as businesses find ways to make it more attractive and more available.

Yet the credit card industry is only 17 years old.

On a February evening in 1950 a credit specialist named McNamara was working late in his New York office, had dinner in a strange restaurant, and found that he had misplaced his wallet. Faced with an evening of washing pots and pans, he phoned his wife, who arrived from Long Island two hours later with the money. Next day, over lunch with his lawyer, the idea for the Diner's Club was born.

In the credit card industry, McNamara's dinner is irreverently referred to as The First Supper.

And credit has been dining high on the hog ever since.

This is Faith Prior, at the University of Vermont.

3. *A Television Program*

ACROSS THE FENCE

The Extension Service, University of Vermont

Subject: Credit

Participants: Mrs. Faith Prior, Extension Family Economist, and Tony Adams.

Video: Faith comparing credit cards in wallet

TONY: So I win—I have eight credit cards, and you have six.

FAITH: Or maybe that means that you lose . . . .

TONY: In any case—between us we've got 14 credit cards.

FAITH: More credit than money, as a matter of fact. Which is about the situation for most Americans these days. Did you know that there is actually a new medical term—the "credit card syndrome"—being used to describe the symptoms being suffered by a patient?

TONY: You mean he can't sleep at night because he's in debt?

FAITH: No—honest to goodness physical symptoms; a Dr. John Battles reports that a patient, a lawyer, had for several years suffered pain over the left hip and down the leg. The doctor found that the man's wallet had grown fat with credit cards, and that removal of the wallet from his left hip pocket brought relief from the symptoms; reinsertion reproduced the symptoms.

Maybe it would be a good thing if ladies who carry credit cards in their purses got a little twinge once in a while.

TONY: Are we really using credit at the really great rate of acceleration that I hear about?

FAITH: We are. And our whole outlook on the use of credit, and the role that credit plays in the economy, has changed. When I was growing up it was a very bad thing to owe money for anything—a home mortgage possibly excluded. When the adults in the family owed money, they couldn't sleep at night, and there were long conferences around the dining room table about how the debt could be paid off.

This was part of the Puritan ethic—this thrift that had built up the capital for production in this country, the production which was the basis for our becoming a production economy.

TONY: And now this production capital isn't needed?

FAITH: Now we're experiencing the results of the shift toward emphasis on consumer spending to absorb the results of all that production. What do you do if the buying public says, "Yes, I'd like to have some of your product—and yours—and yours—but I only have just so much money, so I can't buy it all?" You say, "I'll make it possible for you to buy *without* actually having the money in hand."

TONY: And that's where credit comes in . . . .

FAITH: Right. I remember back in basic economics having a hard time accepting the fact that for the purposes of buying, having $100 of money, plus $100 of credit, was the equivalent of having $200. People who have grown up since World War II have no trouble at all with that concept.

TONY: Do you think credit is *too* available?

FAITH: Somewhere, for every family, there's a point of balance. I was talking with a teacher the other day, a woman who works with young people every day, and she said "I teach young people that the use of credit in any form is *wrong*. I have never had a charge account in my life, and I think we have a moral responsibility to teach young people to stay away from credit."

TONY: What do you think about that point of view?

FAITH: I think she's teaching about 25 years too late. Credit—the broad, generous availability of credit—is a fact, and it isn't going to go away because you stick your head in the sand. We're living in a credit world—and young people have to be taught how to live in it. Just as they have to be taught highway safety in this automotive world . . . .

TONY: I understand there are more personal bankruptcies every year . . . would you say that's true?

FAITH: We can see how true it is . . . over the past 20 years this is the way personal bankruptcies have risen, in spite of the fact that this is a period of unprecedented prosperity. The rise of personal bankruptcies and rise in credit sales causes concern that we have not—and are still not—teaching families the management of credit.

TONY: Can you put your finger on some of the reasons why people get into credit troubles? This is a period of high employment, good earnings, lots of ability to pay now, and in the future—and yet we have this fantastic climb in bankruptcies . . . .

FAITH: This is also a great period for buying service and buying convenience . . . and when we buy the convenience of not carrying much money, and of being able to make purchases we don't anticipate, we lose one sense of spending real money. I use an oil company credit card, for example, and an average month's bill is around $50. When I sit down to write them a check, I always think, "I can't have spent that much on gas, etc."—but there are the slips I've signed, and I've had no feeling at all that I was spending money. Add a few more credit cards or charge accounts, and my cash income is all committed before I ever get it.

The other place where families get into credit trouble is in the matter of interest charges. When we buy on installment credit, we're really borrowing money, and there is a charge for the use of that money. The average cost of financing a car is 12%, the usual charge on a revolving charge account is 18%. Because interest isn't quoted in annual terms, we tend to think not about the total cost, but just the monthly payment to be met.

The author of *Buy Now, Pay Later* says the reason for the success of the all-purpose credit card can be summed up in one word: status. He adds that "only the needy carry cash," and ironically, "the man who flourishes a bankroll is not only considered a boor, but his integrity and character may be suspect."

TONY: So there's no point in lighting my cigar with a twenty-dollar bill to impress you?

FAITH: Not any more—just flash your credit cards! But perhaps we ought to mention that as credit cards become more and more common, they lose their value as status symbols—so don't throw away your money yet.

TONY: "Credit card" seems to be one of those words that's always been part of the vocabulary—yet I know that it hasn't. Was it one more of the outgrowths of World War II?

FAITH: Even more recent than that. The story goes that in February 1950, in New York, a commercial credit specialist named McNamara was working late and had dinner in a strange restaurant. When he came to pay the bill, he found that he had misplaced his wallet. Faced with an evening washing the pots and pans, he called his wife on Long Island, and two hours later she arrived with the money. Next day, over lunch with his lawyer, the idea for the Diner's Club was born. In the credit card industry, McNamara's dinner is irreverently referred to as The *First* Supper.

TONY: And so out of that meal grows a whole new way of doing business . . . .

FAITH: And a whole new complex subject for ordinary people. We'll talk another time about credit, but meanwhile we might just urge people to visualize money in their wallet being paid out each time they buy on credit, and see if they can't build up a little twinge of discomfort . . . because we know that the heart lies very close to the pocketbook.

TONY: And that puts it—according to your diagnosis of the credit card syndrome—into the hip pocket, doesn't it?

TEACHING IN THE CLASSROOM

SALLY R. CAMPBELL

Contrary to common opinion, the ability to manage personal financial matters, including the use of credit, is not necessarily related to intelligence or income level. Financial problems take a variety of forms. They concern people in all income brackets and can be as serious for the well-educated as for the uneducated.

Let me cite one example. Few historians question the intellectual achievements of Thomas Jefferson. Yet, President Jefferson died just this side of bankruptcy, and it took his grandson a lifetime to repay the family debts. Jefferson was neither ignorant nor poor, but he was unskilled in handling personal financial matters. We know also that he received little or no education in the use of money.

Education in personal economics is the key to helping students develop skill in using credit and managing financial affairs. However, educating the consumer in the use of money and credit is no small task. To begin with, all consumers are different. The right economic decision for one may be completely wrong for another, and the choices are infinite.

In this discussion we are concerned primarily with credit in money management education. Credit is a powerful financial tool, and, as with other tools, its effectiveness depends on the skill of the user. Today, many high school and college students are frequent users of credit. Tomorrow, as wage earners and heads of families, they will face even more cash or credit choices. Let us concentrate on what these consumers need to know if they are to use credit intelligently.

KEY IDEAS ABOUT CREDIT

At this point I would like to suggest some basic understandings on consumer credit. Some people may prefer to call them concepts or generalizations. Whatever term we use, this is merely a way of organizing subject matter under *key ideas* that we can develop with students of different ages, abilities, and backgrounds.

1. *Consumer credit permits the use of future income to satisfy present needs and wants.*

The following questions can help teachers develop this key idea in the classroom: What is consumer credit? Who uses it? Why do people use it? How does the use of credit relate to the life cycle? What are the advantages and disadvantages of using credit? Help students apply these advantages and disadvantages to a specific situation. Use case studies to teach them that an advantage in one situation may be a disadvantage in another, depending on needs, income, cost of credit, and financial circumstances.

What does the use of credit do to future income? Help students understand that the purchasing power of future income is reduced by the amount required to pay debts. If a student buys a stereo on time and plans to pay for it at $5 per month, his future spending power is reduced by $5 monthly until he has paid the entire bill.

What does the use of credit do to future needs and wants? Students can learn that using credit for durable goods or purchases of lasting value, such as a car, a washing machine, or a piece of furniture, eliminates future needs for these items for as long as they last. On the other hand, using credit to meet recurring needs, such as groceries or a meal in a restaurant, reduces future spending power without eliminating tomorrow's requirements.

2. *The ability to obtain credit is based on the creditor's trust in the debtor's ability and willingness to repay.*

The development of this key idea can begin in very elementary fashion. Ask students what they would have to know about an individual before they would lend him money or a valuable possession. They will answer with requirements similar to those of the creditor; the individual should be trustworthy and responsible and must return the money or item with reasonable promptness. They might impose certain conditions on how the money or item will be used, when it is to be returned, what will be done if there is loss or damage.

With this groundwork, related ideas can be developed. How does one establish a credit rating? A quote in *Forbes* magazine offers one suggestion: "The surest way to establish your credit is to work yourself into a position of not needing any." You might discuss with students how to go about obtaining credit before they've had an opportunity to show their creditworthiness.

How do creditors judge a consumer's ability and willingness to pay debts? What forms of security do creditors require? What can creditors do when customers fail to meet their responsibilities? What should debtors do if they are unable to make payments on schedule? Once established, how does one protect his credit rating?

3. *Credit is a service for which consumers pay.*

Discuss the cost of granting credit such as those involved in opening accounts, collections, credit losses, and overhead. To help students understand this aspect of credit, ask them to investigate (1) different ways of figuring and stating credit charges; (2) why the cost of credit varies from creditor to creditor; and (3) how costs of granting credit are covered when there is no specific credit charge, as with charge accounts.

In relating the cost of credit to the individual, emphasize the importance of knowing the *total dollar cost* as well as the amount of the monthly payment. Too often, consumers think only in terms of what they can afford to pay each month. It is equally important to know the total cost and how it is affected by the amount paid each month as well as the length of time required to repay. Generally, the lower the monthly payment and the longer the repayment period, the greater the total cost will be.

Finally, in considering credit costs, the consumer-student needs to decide whether he can afford the prices and fit the monthly payment into his budget.

4. *The economic principle of opportunity costs applies to the use of credit as it does to other purchases.*

Perhaps no other idea is more important in making effective choices in the use of money or credit. It means considering each purchase not only in terms of price, but also in terms of other things one might buy for the same price. In other words, should the consumer spend $36 in credit charges to buy a dishwasher on time, or could he get more satisfaction by spending that $36 for something else? By applying the principle of opportunity costs to each purchase, credit or cash, the consumer can make choices that will bring the greatest satisfaction to the family for the amount being spent.

5. *Comparison shopping is the key to finding the credit and the credit terms to meet individual needs.*

Consumers can decide when and how to use credit on the basis of their own financial situation and by applying the principle of opportunity costs. Once they decide to use credit, shopping skills become important.

How can teachers help students learn to shop for credit just as they shop for groceries, clothes, and other purchases? Let's consider what the consumer needs to know in order to shop intelligently for credit.

First, the consumer has to know where to shop. Teachers might discuss the various sources of credit, services provided, charges, and credit rating or security required.

The consumer then needs to know the different forms of credit. Surveys, discussions, a guest speaker, or field trip can help students learn more about retail credit and cash loans. They should learn the characteristics of the more common forms of credit. For instance, how does a charge account differ from revolving credit? How does an installment purchase differ? What credit card plans are commonly available in the area? How does one compare with another? What types of cash loans can consumers obtain? What should be considered when comparing retail credit with a cash loan?

The credit shopper also needs to know and understand the terms stated in credit contracts, how to figure the total dollar cost of credit, and how to evaluate the services offered in connection with credit.

Teachers will be doing students a real service if they help them develop necessary shopping skills, both for credit and for other purchases. They can, in a sense, put money in their pockets by teaching them to become buyers—not just spenders.

6. *Credit can be a form of saving.*

Economists define saving as withholding money from current spending. Within the framework of personal money management, savings can be defined as anything that increases the financial well-being of the individual or family. When credit is used to pay for durable goods, a home, or even an education, it improves the individual's financial position. To help students understand how they can use credit as a saving device, ask them to compare the economic aspects of:

> saving *in advance* and paying cash for a specific item
>
> versus
>
> saving *after* buying by using credit and making installment payments.

It is surprising to note how much the two methods have in common: (1) both the advance savings and the installment payments come out of current income and reduce the amount available for current living expenses; (2) in both cases, the individual is improving his financial situation, either by building up cash savings or by reducing indebtedness; (3) in both cases, the money is flowing into the economy via financial institutions; (4) both saving in advance and using credit offer the consumer a way to reach a goal or meet a specific need.

There are two basic differences in the two methods: (1) using credit services costs money, whereas savings, if temporarily invested, can earn money; (2) saving in advance means delaying purchase, while using credit makes it possible to buy immediately.

The following questions can help students choose between these two methods of saving: How long would the individual be required to save in advance? Does the individual have the self-discipline required to save regularly? Would he be able to do without the item while saving? Would the satisfaction of having the purchase while paying for it be worth the cost of the credit?

7. *The use of credit brings responsibilities.*

Teachers might begin here with the idea of the consumer's responsibility to himself and his family when using credit. It is, after all, the individual who must decide on the basis of opportunity costs, when, how, and if the use of credit provides the best way to deal with a specific financial need. It is the same person who must decide how much credit he can use safely and repay comfortably.

Studying a contract is one way to show students the legal responsibilities of both debtors and creditors. Do students understand the terms that appear on credit agreements—terms such as *default, chattel mortgage, foreclosure, acceleration, principal, interest, rebate,* or *proceeds?* Do they know the regulations and restrictions on creditors with respect to rate computation, collection of charges, and refinancing?

Students can learn what to look for in a credit contract, the necessity of reading and understanding any written agreement before signing it, the consequences of failing to meet the terms of a contract. A point deserving some emphasis is the importance of the consumer's providing complete and honest information on credit application forms. Creditors cannot make sound decisions on granting credit without reliable information on the applicant's financial situation.

Taking consumer responsibilities a step further, it may be important to show students what impact consumer use of credit has on the economy. According to an essay in *Time,* July 2, 1965, credit is at the very heart of our economic system. It permits both business and consumers to expand.

Consumer credit increases the purchasing power of individuals and families, particularly for "big-ticket" items. This, in turn, helps create the demand that supports mass production and distribution. One result is lower prices on mass-produced items. The consumer's decision to use or not to use credit can also contribute to or help check inflation depending on the economic climate. This is not to imply that the consumer bears the whole responsibility for the economy—it merely illustrates that consumer behavior makes an important difference.

8. *Credit can help consumers raise their level of living.*

While credit does not increase income, it does permit the consumer to plan and project his buying beyond the purchasing power of a single paycheck. How many of us here today could walk in and put down the cash for a new car? How many could write a check to cover the cost of carpeting a home or buying new living room furniture? How many could meet a major financial emergency with cash funds?

Installment credit is the most practical, convenient, and perhaps the only way many consumers can pay for large-ticket items and meet emergencies.

To develop this idea with students, teachers can try the problem-solving approach. Draw up a financial outline of several families. Include information on income, expenses and obligations, debts outstanding, place in the life cycle, cash savings, and assets. Ask students to decide under what circumstances each family could use credit to advantage for any of the following: furniture, a car, a family vacation, medical bills, a financial emergency, a washing machine. Ask them to consider the alternatives to using credit, the cost of credit, the importance or unimportance of meeting the need immediately.

Another student assignment could be to draw up a long-range family financial plan illustrating how credit, over a period of time, can serve as a budgeting tool.

Recently I read that less than a century ago, the average person had 72 "wants." Of the 72, 16 were considered necessities. Today, the wants number 464, with 92 of them considered necessities. It might be interesting for students to compare the wants and necessities of today with those of the past and to consider the part credit has played in achieving our current level of living.

9. *Misused credit can bring financial difficulties.*

We have only to look at the demand for debt counseling and consider the rise in personal bankruptcies to know that credit problems exist.

According to surveys and counselors who work with debt-troubled families, the root of most financial difficulties lies largely in lack of education in the use of money and credit. Many consumers do not have the understanding, the skill, and, in some cases, the self-discipline to use credit effectively. To help young people understand the consequences of misusing credit and help them avoid financial problems, teachers might try some of the following ideas with students:

- Study two or three different contracts.
- Investigate and discuss the results of failing to meet credit obligations.
- Draw up criteria for the wise use of credit.
- Discuss how individuals and families can decide on the amount of credit they can use safely and repay comfortably, without sacrificing other needs.
- Outline steps creditors can take to prevent customers from overextending themselves.
- Investigate and report on debt counseling services—who sponsors them, how they work, the cost involved, how to evaluate them.
- Study and report on personal bankruptcy—its extent, causes, practices, and consequences.

The key ideas or basic understandings I have discussed offer one way to organize what can be taught on consumer credit. These and other key ideas can be developed in any number of ways, depending on the students and the teaching situation.

Only one thing is certain. If we do our jobs well—if we accept our responsibility to educate individuals and families in the use of money *and* credit—we will be working toward both the prevention and the solution of financial problems. We can contribute to the constructive use of consumer credit, to the economic competence and well-being of consumers, and to a stronger national economy.

TEACHING THROUGH EXTENSION

ERNA K. CARMICHAEL

Extension home economists have been far too timid in teaching families about money management. Perhaps they have not been aware of the great need for teaching families how to avoid financial problems. Families with such problems often do a good job of hiding their situations and putting on a good front, at least for a while. But when the situation seems hopeless, credit sources are exhausted, money arguments seem to be endless, or when a family is afraid to answer the door for fear it is another bill collector, often *then* is the only time they seek help.

Who in a community can help with financial problems? Who can help families *avoid* financial problems? A knowledgeable friend or minister, a banker, lawyer, credit union adviser, or counselor in a labor union can help. How many people know that Extension home economists can help? They have been teaching consumer buymanship and money management for years.

Extension home economists are adult educators. They are equipped to offer classes on money management to all segments of the population: the poor, the near poor, middle-income families, and even the rich although they can afford to hire someone to manage their money, if necessary.

An adult educator must adapt his subject matter to a wide range of individuals—to the uneducated, to high school graduates, and even to college graduates. To be able to show families at all levels how to use all of their resources, yes, even credit, so that they can reach some of their goals, can be one of the most rewarding experiences a teacher can have.

Teaching credit to adults or high school and college graduates can be easy because it can be at very rudimentary levels. The instructor may think the class knows all about sources of credit, rates, garnishments, deficiency judgments, and bankruptcies, but many have only a hazy idea about these subjects. A college graduate in Milwaukee said, "I can't believe I'm paying 30 percent interest on our refrigerator. I assumed I was paying a fair 'going rate.' "

USING TOOLS

Teachers of credit should learn all they can about the subject, especially the rules and regulations in their particular states. They should present a topic in a well-organized manner, using a blackboard and any other visuals possible. Visuals should be adapted to the realities of the lives of those who are being taught.

In our Extension office we have developed a money management workbook to be used in our workshops, and we have plans for another one to be used with less sophisticated clientele. Another tool we have used in our workshops is humorous cartoons blown up to poster size.

Another teaching approach is role-playing with a few single props to illustrate the tactics used by salesmen to upgrade the consumer's selection. "It's only $3 a week more" has convinced many a shopper to buy the super deluxe model rather than the medium- or lower-priced model he originally intended to buy. The salesman doesn't always explain that the number of payments are greater for the deluxe model; he is more interested in seeing his sales go up.

Students must be taught to wade through the innumerable methods of quoting interest rates, and they must be able to determine the true annual interest rates. But how does one teach the constant-ratio formula to a group that can't do even fourth-grade arithmetic?

This was my problem when I was asked to teach money management to a group of school dropouts training to be mechanics under the Manpower Development Training Program. These boys would soon be employed on their first jobs, earning $3 to $5 an hour. They needed the lesson on credit badly, because they had already had traumatic money experiences. They knew what it was like to be hounded by bill collectors, to see the furniture store reclaim the family's washing machine or television set, to see Dad lose his job because of frequent wage garnishments. They even had strong feelings about paying for a car they no longer possessed.

TEACHING GOES BOTH WAYS

I didn't need to show these boys horrible examples of ill use of credit; they told me. Classroom discussions were lively and heated. It was very evident that these young men wanted to know why credit costs so much, how repayment plans are figured, and how much credit is too much.

In our discussions it was brought out that a consumer must pay extra for the privilege of using merchandise today and paying for it later. If a person *always* buys on credit, he *always* pays more for his goods. These are the hard, cold facts the boys needed to understand.

They learned that if, after considering these statements, they still wanted to use credit, they could shop for the cheapest true annual interest rate. I couldn't teach them how to use the constant-ratio formula; this is difficult to comprehend. Yet they needed to know that the "quoted rate" is not always what it seems to be. I chose a bold maneuver. In previous group discussions I had demonstrated, in logical steps, how to make wise decisions buying food, clothing, and shelter. Since we had developed great rapport, I felt I could make statements about the true annual interest rate of various lending agencies, and they would accept them as facts.

We explored all the sources of credit and listed them on the blackboard. A discussion followed on the variety of ways to quote interest rates to make them sound low. Then, I told them the true annual interest rates at lending institutions in Milwaukee, as follows:

Credit unions	12%
Bank car loans	9-27%
Other bank loans	7% and up
Revolving charge accounts	18%
Clothing or furniture stores (credit)	18% but could be much more
Small loan companies	12-30%
Loan sharks	Sky-high rates
Insurance companies (if available)	5%

The boys got the message. One was overheard telling another classmate, "Mrs. Carmichael says if you can't borrow money from the bank or the credit union, forget it."

Hopefully, some day the true annual interest rate will appear on installment contracts and price tags so that the method of quoting interest rates won't be so confusing.

This same method of credit education has been used successfully in teaching several financially distressed families in a program sponsored by the labor union and management of a large corporation in Milwaukee. Many of these workers had little or no formal education.

Credit can be taught. My message to adult educators is: You must make the story of credit meaningful to the students you are teaching. Read and appreciate the work of researchers and specialists, but have confidence in your own teaching ability. Then you must teach credit. Your clientele needs this information today!

DECISIONS, DOLLARS, AND THE DISADVANTAGED

ALICE M. STEWART

In this discussion on teaching money management to the disadvantaged, the decisions mentioned in the title are ours—our decisions as home economists. The dollars are those of the disadvantaged. Hopefully, at some point, we may see the importance of a close working relationship between the two.

Home economists have much to offer both directly and indirectly for the benefit of the disadvantaged. How, how much, when, and where are entirely different questions, all yet to be answered.

Home economists began concerted efforts for the low-income family in the earlier 1960's, and have made progress, though a bit more slowly than we might like to believe.

For purposes of discussion, the disadvantaged may be those persons with inadequate incomes or marginal incomes who lack the basic skills, knowledge, and experience necessary to get the most for their money. This definition is very broad and can be applied to a wide range of people.

As previously stated, some decisions must be made before home economists can teach money management to the disadvantaged. Let us consider communication as our first basis for decision.

One of the best articles on communicating with low-income families was written by Naomi Brill for a low-income workshop in Nebraska(*1*). She very clearly gives three barriers to communicating with low-income families:

- Difference in values.
- Basic feelings or preconceived notions about how people should behave, think, and feel.
- Inability to accept people as they are—to allow them to be whatever they are and to make decisions, however unwise they may seem to be.

It would seem that once the third barrier is overcome, the other two would automatically be taken care of.

There is so much that is inherent in these three barriers that a fourth can be added.

This concerns what Dr. Jean Cooper, assistant professor in home economics education at Cornell, has aptly termed "reverse cultural deprivation." Understanding the cultural differences of the disadvantaged—a little of their history and the circumstances leading up to their present socioeconomic status—would seem essential if we are truly going to make a contribution. Overcoming reverse cultural deprivation can give ample support for changing the first three barriers. This could provide a gateway instead of a barrier.

An editorial in a July 1967 issue of the *Wall Street Journal* used the lead sentence: "It takes more than good intentions and a raft of education courses to teach in the slums"(*2*). This sentence is just as true if you take off the prepositional phrase "in the slums." After all, not all of our disadvantaged are in the slums. The article goes on to say that teachers "need a knack that doesn't come with a certificate." The knack referred to is the ability to communicate, or, in the words of a popular commercial, "Without it, you're not with it."

Home economists interested in teaching money management to the disadvantaged must not be found hiding behind pseudo-barriers of language and trying to find the level of the disadvantaged. For material to be interesting, it must be presented in an interesting manner; it doesn't have to be written like a comic book or at the lowest grade level possible. If we seek to find and know our own level in trying to reach the disadvantaged, then we may not have to worry about theirs.

Tied closely to our ability to communicate is *what* we are presently concerned with communicating to the disadvantaged—how to manage money. Our next decision then becomes how we feel about money and money management, regardless of whose it is. Then we must decide how we feel about the disadvantaged and their money, regardless of source, or how they manage it. Schneiderman tells us that "It is essentially untrue for anyone to say that they do not have strong, well-developed feelings and attitudes toward money and what it represents"(*3*). We generally accept money as a medium of exchange and as an economic fact of life, but its true significance is rarely ever clearly defined in our minds. We cannot live without it, and many people have difficulty trying to live with it.

As a medium of exchange, money is also a determinant. It determines our environment and our relationship to it. It determines where we live and with whom, the kinds of friends and neighbors we have, and the circumstances surrounding us. Money determines our worth and dignity. It affects our personality development and attitudes toward self and others.

We learn quite early to have the highest regard for the American tradition of the self-made man. We regard people who cannot measure up to this tradition as being inferior. This American tradition served to build our country, but it is totally unrealistic and inadequate as a basis for providing for many of our disadvantaged families.

How one manages his money reveals much about him, and often this revelation can create fear. Research has shown that it is easier to get families to discuss the personal details of their lives than it is to get them to discuss their finances. The higher the income, the more reluctant one is to discuss his finances.

Not all disadvantaged families are totally dependent, but all of them are financially insecure. They must of necessity look to others for the amelioration of their socioeconomic plight. This is where we home economists are needed most—but only if we can communicate, have the right understanding of money, and are interested in the disadvantaged.

We must decide where our responsibility begins and ends in trying to teach money management to families:

- Should we try to help them adjust to their low level of income?
- Should we teach them how to buy on credit?
- Should we try to help them starve a little less?

Perhaps our decision must be to learn enough about families to determine what we can do and what we cannot do, being honest with ourselves, with the disadvantaged, and with other professions.

It may not always be the disadvantaged people who need help most. It may be the programs that serve them. Does not part of our responsibility lie in the formulation of programs and program policies for this group?

Making the right decisions and finding the proper role is a very involved and even complicated process. Trying to reach families who may or may not be seeking our services makes the task even more complicated.

Dr. Louise Richards summarizes consumer practices of the poor as follows(*4*):

- Low-income families do buy necessities first and luxuries last.
- Low-income shoppers are not wide ranging in their search for good buys.
- Low-income families do not budget their incomes or plan their purchases.

How, then, will we teach these families to manage their dollars?

TEACHING EXPERIENCES VARY

Teaching money management to groups of disadvantaged individuals can really be an adventure because of the wide differences in individuals and groups and the way they relate to one another and in the variety of experiences from one community to another. These are people who may or may not know what we have read about their values. The teacher who can accept them for what they are is in for many surprises.

The position and intelligence of the disadvantaged student must be respected. Listening and really hearing what disadvantaged students are saying to each other and to you can pay bigger dividends than your simply asking them what they would like to learn.

The variety of topics that can be discussed in money management classes is almost endless. However, the topics must cover realistic experiences and represent attainable goals. The experiences must represent something in the everyday lives of the group.

One woman asked how she could know if her bill (an installment debt) was paid up. The following lessons resulted: The first was "Ways to Pay Your Bills." In this lesson (actually two) students learned the advantages and disadvantages of using various tools to pay bills. They learned that paying bills can cost money. Buying money orders at a check-cashing store costs from 10 to 25 cents more than at the post office or at a bank. They listed all the places that they could buy money orders conveniently and then assigned themselves different places to check for comparisons. The lesson did not involve large amounts of money. Simple though it was, it was of immediate value to them.

The same lesson did not work in a different community because the various sources of money orders were not available. The cost of travel would offset any savings. Out of this question also grew a lesson on where to go for help. In this case, this woman had actually overpaid her bill, and everyone in the group learned from her experiences with the Bureau of Consumer Frauds and Protection.

Another woman commented that she never had enough money to spend. The comment was just enough to get us started on planned spending (heaven forbid that we should call it budgeting).

Disadvantaged students can learn to make a spending plan just as everyone else does. Some of those with whom I have worked have been very good record keepers. They have separated fixed from flexible expenditures though they used different terminology. Their problems stem from allocating a specified amount for a flexible expense and sticking to it. Plans look good on paper, but handling cash in the midst of temptation and want is an altogether different story. Here is where the sharing of experiences can really be beneficial, and every tool can be brought into play. The use of envelopes, coin purses, or any workable method to separate the money for flexible spending can make what you are discussing realistic.

The wrecked spending plan can be grounds for another lesson—a lesson in choice-making and alternatives. The mother who comes to class almost in tears because she spent $10 she could not afford when "the Avon lady came by" needs help from her peers. What could she do? What would you do if you were in her place? Cancel the order completely? Not be at home when the Avon lady delivered the products? Ask the Avon lady to take payment in small installments? Take one of the items that didn't cost much and let the others go back? In the mother's case, the last alternative seemed to be the most acceptable. The wrecked budget then only had a small dent in it.

Had the situation been a real emergency, more than likely the spending plan would have been wrecked because there is often so little left for emergencies. However, all would not have been lost. The disadvantaged must be taught the importance of making reasonable adjustments and how to use agencies that offer help in time of need or in emergency situations. The importance and value of planning must be demonstrated.

USING CASE HISTORIES

In each of the cases above, discussions were based on personal experiences. In instances where one does not have an opportunity for personal discussions with groups and in teaching situations where there are also men who would not enjoy the former approach, the case history may prove to be of value. The teacher will have to select the case history, or combination of several case histories, to meet the situation as she sees it. The relevant points can be picked by the group, and the teacher can take her cue from there.

For example, a case history of a young couple who had migrated from the South and gradually purchased more and more on credit brought much sympathy from one group of adults. The solutions to this couple's problem did not take the form of what the young couple might do. Instead, they were more in the form of "what I wish someone had told me when I was younger." The solutions could have been taken one step further to "what I must do now because no one told me when I was younger."

Lessons on payroll deductions may be very valuable to the disadvantaged who earn all or part of their incomes. All too often the disadvantaged do not realize that their deductions may actually be purchasing something for them. They need to be taught about Social Security benefits and how to obtain them when eligible. Payroll deductions for health and hospital insurance, workmen's compensation, and union benefits can all be understood through money management teaching.

Richards' summary indicated that few low-income families have life insurance(*4*). However, the families under consideration were in the $3,000 income bracket. Many experiences with the disadvantaged who are not receiving public assistance reveal a large number and variety of life insurance policies. There are also those who express a desire to purchase insurance at some future date. More often than not, insurance coverage is not understood, and it often seems that just saying "Metropolitan" or "John Hancock" (to mention two) suffices. In many instances, this is another form of door-to-door selling in predominantly low-income neighborhoods about which more needs to be said and done.

Teaching the disadvantaged about life insurance can be difficult because there is so much to understand. Quite often the difficulty lies in our trying to teach too much. A simple lesson on types of insurance policies and the differences in cost of similar benefits brought an interesting comment from an adult male student. He remarked, "Gee, I never knew there was any other way to pay for your insurance except that 25 cents per week."

The tremendous social value that life insurance can have for many of the disadvantaged must also be recognized and respected. The woman who tells you that she cannot drop or adjust the $28 per month that she is paying for life insurance can be very serious. Despite this, we cannot deny the need to teach about both health and life insurances.

THE POOR PAY MORE

The use of credit looms large in the lives of many of the disadvantaged. Many of them find themselves in financial straits because of it. That the poor pay more is a well-established fact. They pay more for shoddy merchandise, and they pay more for using the costliest sources of credit.

Why many of the disadvantaged pay more is not clearly understood. Many of them find themselves in crisis situations with no other choices open to them. Their one choice is usually the merchant who is charging the highest interest rate possible for credit. Many are bilked in this way.

Quite often the disadvantaged pay more also because of their ignorance of certain basic facts and their rights as citizens. I am reminded of the woman in the movie "The Poor Pay More" who had purchased a set of encyclopedias from a door-to-door salesman because he told her that the Board of Education had sent him. He also told her that her child would not pass unless she bought a set of encyclopedias from him.

This is an example of a crisis decision, and there is nothing that we, with all of our knowledge of money management, can do about it. The truth-in-lending bill will not help such people. The decision to buy on credit was made and nobody went shopping for credit. (More helpful reading on this subject can be found in "Installment Credit Problems Among Public Welfare Recipients," by Milton J. Huber.(*5*)

In trying to teach money management to persons in different financial situations, the best contribution may be in teaching them to understand the transaction: what an installment contract is, what it means, what it says, how it should be filled out, and what happens legally when payments are in default. Repossession and garnishment or wage assignment should be taught to this group.

It is unrealistic to say "don't buy on credit" today. However, credit can be taken too much for granted. The salesman's spoken word becomes law in prospect of a sale. The interested customer, unarmed with a working knowledge of the true situation, is easy prey.

The disadvantaged family who can use credit with some discretion deserves to be taught as much as they can possibly understand about credit transactions. They, like all other families, should understand contracts and their legal rights when they buy on credit. They should be taught the sources of cash and sales credit and the differences in each. They should be taught to evaluate their capacity to use credit so that they may use it as an asset.

There are many more areas of money management that can and should be taught to the disadvantaged. We have said nothing about that wage earner whose old-age benefits are going to need supplementation. We have not said nearly enough about starting a young couple or young single person out on the right foot. We could go on and on.

Teaching money management to the disadvantaged can be a rewarding adventure. And it can pay big dividends for every minute of time and interest invested by home economists.

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FINANCIAL MANAGEMENT COUNSELING

MARY FEELEY

"Nothing astonishes man as much as common sense and plain dealing." Emerson said this over a hundred years ago.

A decade or two ago this statement could have well applied to the management of the family's income. In those days money management called for good common sense and plain dealing; thrift in itself was sufficient for the family to prosper. As one homemaker remarked, "It was a cinch to manage the family income 20 years ago compared to all the ramifications involved in personal money management today."

The forces of increased taxes, inflation, and consumer credit have changed the concepts of personal money management from "budgeting" into a broader economic concept. How best to protect family savings from continuing inflation erosion puts increased responsibility on the manager of the family's finances. Since our past record shows the 1940 dollar at 43 cents today, what will be the prognosis of the purchasing power of the dollar 10 or 15 years from now? It is a question of concern to all of us. Understanding how federal income taxes and state, city, and county taxes apply to a family financial plan requires more than common sense and plain dealing. And careful use of consumer credit calls for an understanding of the mechanics of borrowing, saving, and investing.

It's apparent that these forces and other influencing factors require educational programs to provide better understanding of economic and financial matters. Curricula in consumer economics are presenting some basic terminology of economic theories and principles that can be related to everyday living. A few years ago Gwen J. Bymers, in the April 1962 *Journal of Home Economics,* said: "The broad concern of economic theory is how consumer preferences are translated into production decisions that will maximize consumer satisfaction."

One aspect of this economic theory has been defined and translated into the principle of The Consumer, His Budget, and Opportunity Costs. This principle has been expressed in many ways since the first man said, "You pays your money and you takes your choice." But if awareness of this concept of selectivity is more fully appreciated by families, they can avoid a period of trial and error in attempting to work out their financial plans.

Other economic theories—The Consumer and Price Determination, The Consumer and Inflation, The Consumer and Bargain Prices—are also translated in such a way that a more objective teaching technique is developing for money management. No longer is the emphasis placed on the importance of detailed bookkeeping techniques.

I am not suggesting that the little details of a budget should be thrown out and concepts alone taught. Even though the emphasis today is on economic theory, the basic principles of management cannot be discarded. Establishing what one wants from money has to be followed up with an individualized plan for obtaining it and using it. Whether it is a simple arrangement, workable without pencil and paper, or whether a notebook works, a plan for executing goals for money is a necessity. On the other hand, understanding concepts without developing a plan to control money will accomplish little.

A trend has begun in banking institutions to take over the bookkeeping and budgeting operation for checking account depositors. The depositors receive a monthly statement that provides detailed information on the distribution of income and expenditures so the family can evaluate its own financial pattern. However, even with this advanced system of bookkeeping, important decisions on where the income should go still have to be made by the family.

Recently I taught a college course entitled

Economics of the Household. The above concepts as well as concepts pertaining to the individual's responsibility as a consumer were developed. These latter concepts included understanding the relationship of the individual and the family to the national economy, the interrelationship of money income and personal achievements, the family's values and goals, and the economic climate of communities and how they affect the family's status.

In presenting the concepts I was interested to note that the top third of the class was able to understand concepts and translate them into everyday living without further details; the middle third could get value from the concepts provided they could be related to specific situations; and the lowest third needed down-to-earth budget patterns to see how these concepts could relate to day-to-day living.

Probably one of the most valuable contributions to the new approach in family money management is the translation of expenditures into fixed and variables. As recently as a decade ago the setting up of a financial plan always began with the major items of food, clothing, and shelter. They are still major expenditures for a family, but some of them are conceivably flexible. Today it is accepted that the most realistic way to look at the demands on your income is in two parts, or two big blocks: fixed expenses and variable or flexible expenses.

Fixed expenses are housing, basic utilities, installment contracts, loans, and insurance premiums—the steady commitments. In my teaching I add savings under fixed expenses. These might be in the form of cash savings, insurance, or sound investments. The temptation is great for some to consider savings as what is left over from the grocery bill.

UNDERSTANDING MANAGEMENT

Adults today, and some students, have not been sufficiently aware of the sources that can provide a deeper understanding of personal money management. Therefore, it is understandable that a surprising number of efficient, intelligent, rational people are wandering around in a fog of debts and loans of their own contriving, wondering what bill to pay next, what bill to postpone until next month, and where to get the next loan. People of all ages and all income levels can become mentally paralyzed by bills, payments, debts, and loans. They cannot visualize the whole picture because their focus is limited to the immediate problem. The self-discipline needed to control spending on items that have only momentary value is lacking. Consumer credit is used to satisfy these immediate needs, but the consumer is then frustrated as his income is spent month after month in payment of these small bills.

The ability to build and maneuver family assets and to work on a balance of fixed and variable investments calls for an understanding of economic concepts outside the scope of knowledge of most consumers. Information about individual rights as they apply to Social Security laws, income tax, estate tax, inheritance tax, and other regulations affecting the family should be made easily available. When counseling individuals it is possible that a combination of a little accounting, a little economics, and a little banking might make a more successful family money manager.

After five years with a large savings bank, it has been gratifying to me to start my own personal counseling service. People want an objective point of view on their finances and need encouragement to talk over their situations.

The first actual step in counseling is to list carefully all the facts and information necessary to the solution of the problem. From experience I have learned that passing judgment on how clients are spending their money never helps them to understand how they can spend it more wisely. They don't come to be judged, they come for assistance. Criticism on the counselor's part can put clients on the defensive, and thus defeat the purpose of the visit.

As the plan of how they spend their income formulates, many clients tend to give only their outstanding debts and fixed commitments. They completely forget the daily living costs and the extras that often can be the cause of their particular problem. Before any suggested plan is formalized, the discussion in many cases leads to the important question, "What do you want from your income?" The variety of answers is as wide as the variety of people who come for financial counseling.

To many who receive counseling, the concept of money management is not clear, because they have long lost sight of money as a resource for reaching goals and reflecting values. It is difficult to communicate the benefits of sound financial planning if they are enmeshed in the day-to-day problems of living.

Recently a minister and his wife asked for a workable plan for the minister's yearly income. They were moving to another location where the wife did not plan to work in order to supplement the family income. This couple hadn't been thinking of money as a resource, but as something with which to pay bills and to borrow when demands on their income became too high. What they really wanted was a plan for security within the framework of the minister's income. In correspondence from the minister's wife a few months ago, she indicated they were working out their situation, and could hope in another year to start a systematic savings plan.

Many adults today are still going by percentage formulas for their own so-called financial plans. They use the national averages to establish the family's spending. These national averages are useful, but they do not apply in the same way as they did at the turn of the century. These averages should be considered as merely one of many tools to be used in working out up-to-date plans. As a family's own plans are revealed, percentages of income for fixed and flexible expenditures will automatically develop, depending, of course, on the family's goals and income status.

It is important to relate values and goals to income, but in personal counseling it's frequently apparent that the husband and wife do not see eye-to-eye on their goals. Recently a man came in for counseling whose salary from two jobs was $17,000. He wanted to save, his wife wanted to spend. He knew a high percentage of his income was spent for clothing the family and other household expenses, but his wife's answer to the problem was to demand more money.

Clothing percentage figures could help clarify this situation to some extent, but this family also needed a better plan for living. There was no easy answer to their problem; but when both husband and wife agreed to make an appointment to see me together, there was evidence that they could progress through compromise. Their problem was not the amount of money, but how it should be distributed.

NO SET PATTERN

Each adult who comes to me for consultation sees the management of money through his own eyes. Money management can mean different things to different people at different times in their lives. The various cycles in people's lives are so important, and so immediately pertinent to budget counseling, that the counselor must have sufficient concern to revise a budget that might have worked a year or two ago, even though the client's income may still remain the same. The young teen, the newlywed, the retired couple—all need a different approach to what their income can do for them.

To a homemaker raising a family a money management plan may mean just measuring the household costs to match her husband's salary. In counseling a couple under these circumstances I frequently notice that they discuss these various expenses together. They wonder if the answer is simply cutting back in the household budget. The budget may be flexible and stretchable, but too often, as the long list of expenditures are accounted for, the budget has no more stretch left. What they have to be made aware of is that the non-essentials are getting them into trouble, not the essentials.

In counseling I continually stress the wisdom of using credit. It is a necessity these days, and it is important to be able to judge a family's individual capacity for making use of it. There was a time when the man who bragged that he operated strictly on a cash basis earned a certain admiration from his neighbors who were struggling to keep up with monthly payments. But in this credit-conscious age the same man can run into major difficulties.

As an example of the unrealistic all-cash operation, I cite the dilemma of the man who just recently wrote me that he was in the embarrassing position of not being able to identify himself if he wanted to pay for purchases by check. He had no credit standing, good or bad, though in actual fact he could afford to pay for whatever he wanted. The problem was that he had lived on a cash basis for the past 15 years.

Although each personal counseling situation is unique within itself, a few categories of the overall aspects of counseling are evolving. Many people think of counseling only in terms of debt-counseling, but those who have asked for my help want types of counseling that I would classify mainly as follows:

1. Preventive counseling: who should handle the income and how; how can the family income be better distributed.
2. Money management plans for those thinking ahead: engaged couples, young married couples wanting to buy a home, and retirement couples.
3. Evaluation of assets: discussion of the proportion between fixed and variable investments.
4. Built-in discipline controller: a plan for paying off indebtedness.

An example of the last category is the case of a single, mature woman who was heavily in debt due to poor financial judgment. The problem for her had to be tackled head-on, with careful analyzing of these goals:

- To help her reduce her total debt of $5,000
- To meet with her each month in order to discuss how she could handle monthly payments
- To make the best adjustment between the maximum amount available for debt payments and the amount expected by creditors
- To review her fixed maintenance expenses so she could avoid any additional current debt.

The third category can be illustrated by describing a couple who came in for help in evaluating their fixed and variable investments (stocks, insurance, mutual funds, retirement pension) in relation to a specific plan building toward a $200 monthly income five years from now. Could the assets in stocks and mutual funds be transferred to real estate holdings? As the pros and cons of these two types of investment were discussed, it was apparent that ownership of property represented stability to this couple, especially the husband. He was wise enough to have already started to apply a considerable amount of thinking to his plan and anticipated additional research.

Personal counseling, as I see it, is a two-pronged operation. First, the counselor asks clients what they want to do. The point here is that the counselor can't begin by telling them what to do. The only approach is to find out what they do want, and try to help them obtain it. In the old days budgeting was like the "good" guys and the "bad" guys in a Western movie: setting it up one way made it a good budget—the right budget; setting it up the other way made it a wrong budget.

The fact that two different budgets on the same income can both be right is the philosophy that is pervading the modern attitude in both teaching and personal counseling. The double-barreled approach of concepts, plus mechanics, is probably the most successful theory the teaching profession is developing for educating the American family to live within its income.

MEANS AND ENDS

RUTH L. BONDE

I should like to discuss what home economists can do to extend knowledge about consumer credit. Stated another way, what are our responsibilities to the future? Whether we are extension specialists, administrators, high school teachers, or professors, we are educators. This role requires that we recognize the changes taking place in our society, understand the forces making for change, have an image of where change is leading us, and adjust to these trends or seek to modify them. More specifically, we have certain responsibilities uniquely ours.

First, the body of knowledge that we use must be broadened. This is critically important if we recognize the limitations of current data on which we structure so much of our teaching. Second, new and better ways of transmitting knowledge on all levels of comprehension must be found if we really believe that increased knowledge is the basis for development and human progress.

Our special concern, of course, is to communicate the knowledge that will have impact on the lives of people, helping them to achieve optimum welfare through the use of available resources, public and private, and that will serve them in establishing a value system on which to base long-term goals and direct the choices they make in ordinary day-to-day living.

The central focus in this discussion is change. Optimum progress occurs when the integral parts of any movement are coordinated and move forward together toward a common goal. First we will look at the changes that have marked the economic position of the family in recent years. Then we will consider some directions for change which hopefully will be used as the basis for constructive debate on how the work we do can reach its highest potential. The discussion will be limited to research, curriculum change, professional education, and communication, knowing that other important avenues to improvement that might be explored with profit are being omitted.

CHANGE: THE FAMILY ECONOMY

The aspects of consumer credit that have been considered at this workshop remain to be placed in the setting of changes that have come about in the level and standard of living of the nation's families. A more valid and consistent understanding of consumer credit and its place in family finances becomes possible as we consider some of the forces that affect the use of money income and the direction of change in the family's economic position.

One of the criticisms of home economics is that its work is oriented to the welfare of the poor on the assumption that only the poor are concerned with maximizing returns from resources used. This is a false assumption. It is a fact that families in the highest income brackets also find themselves in financial difficulty. Thus we must focus our interests on a broad spectrum of families, their way of life, and their needs.

How does the American family fare? In 1965 the median income of all families was approximately $6900(*1*). By itself this figure has little meaning. Knowing that it represents an increase of $300 over the previous year's income or that $20,000 has been predicted as the average annual family income in the year 2000 may be of some comfort, but it tells little about the well-being of families. What do these dollars buy in the marketplace?

Between 1950 and 1960 the income of all families and individuals after taxes increased 52 percent, while consumer prices increased 23 percent. This represents a gain of 23 percent in purchasing power(*2*). But the gains are not equal for all consumer units. Between 1947 and 1965 the percentage gain in real income for white families was about 61 percent, but for nonwhite families it was about 74 percent.(*3*)

The quality of family life depends largely on how people use their growing incomes in the marketplace. What goods and services do they consume? Higher incomes spread over the population will mean for the poor more of the goods and services generally defined as necessities. For the higher income group it will mean more travel, leisure and recreational activities, and additional consumer durables, such as two or perhaps three cars, two boats, a house in the city and one in the country. And so we must look at expenditure patterns if we will understand the changes taking place and be aware that variations in such patterns are based upon available resources, the cost of goods and services, and needs and wants.

Data show that over time the relationship between money income and expenditures has remained relatively constant(*4*). In 1960 to 1961, for example, the expenditures of urban and rural nonfarm families amounted to 91 percent of the after-tax income. For farm families expenditures amounted to 81 percent(*5*). Though there has been consistency in this relationship over the years, there have been periods, such as in the early 1930's, when expenditures outdistanced money income by a substantial margin for a large segment of the population.

We know, too, that in any one year there are individuals and families, other than those at the lowest end of the income scale, whose annual expenditures exceed their annual income by substantial amounts. This is because decisions regarding spending, saving, or borrowing are generally made on the basis of expectations regarding money income and needs over a period of time, rather than on the basis of current income(*6*). Thus it follows that in national data, expenditures are better indicators of the level of living than is annual money income. That is, consumption is correlated with anticipated income rather than with current income. This fact substantially affects the whole approach to money management.

HOW MONEY IS USED

How has money income been used? In a study of the U.S. Bureau of Labor Statistics for 1960-1961, aggregate figures show for all urban consumers, i.e., families and individuals, an average income of $7747, $1841 of which was paid out in income tax, leaving $5906 for other purposes(*7*). Disbursements for current consumption averaged $5390, ranging by income class from a low of $1307 to $14,745 for families whose incomes were $15,000 or over. Savings, as measured by a net change in assets and liabilities, varied with income. Below the $5,000 level the average family drew on past savings or went into debt. Beyond the $5,000 level families increased savings from an average of $18 to $4774 for those whose incomes were $15,000 or more.

In those years, all but about 4 percent of the families with incomes of $5,000 to $15,000 participated in Social Security and pension plans, and for those whose incomes were from $3,000 to $7500, payable deductions for such plans were the major part of outlays for personal insurance. Certainly the impact of Social Security cannot be underestimated in viewing changes in the financial security of families since the depression period. When we talk about credit extension, this change must be kept in mind, for it understandably influences the financial decisions people make. It might be well to note that even at lowest income levels some money was allocated to gifts and contributions.

Although each family's pattern of expenditure for current consumption is unique, patterns of aggregate expenditure are useful in appraising our way of satisfying needs. The same Bureau of Labor Statistics study for 1960-1961 shows food and housing to be the major items of expenditure, housing exceeding food expenditure by almost 5 percentage points and accounting for more than half of the total(*8*). Though at various income levels the proportion allocated to food ranged from a high of 31 percent to a low of 19 percent, in no case did it exceed the proportion going to housing. Transportation took 15 percent of the family's income, and clothing 11 percent, on the average. Medical care took between 8 and 10 percent of the disbursements of families whose incomes were under $3,000, but about 6 percent for others. The fact that the lower-income groups contain a high proportion of aged people accounts for this difference.

Does this pattern of expenditure denote any change or improvement in recent years? The urban family spent more for every category of goods and services in 1960-1961 than 10 years earlier, and the relationship among the several categories of expenditure shifted(*9*). There was a relative decrease in the proportion spent for what is considered the basic three: food, clothing, and shelter. The decrease is from 57 percent of total expenditures in 1950 to 53 percent in 1960. Those items that accounted for smaller percentages in 1960-1961 were food, clothing, house furnishing and equipment, and recreation. Those taking a larger share were shelter, fuel, utilities, household operations, medical and personal care, automobile purchases and operation, and education. The major change in this category was the decline in food expenditures from 30 percent to 24 percent(*10*). We all know that the demand for food is very inelastic.

The major increase in expenditures over the years from 1950 to 1960 was in housing. Both the value of homes and the mortgage debt increased with advances in rates for mortgage interest and property insurance. However, a decline in the relative importance of home furnishings and equipment, as well as recreational expenditures, is surprising. Because of broader coverage, increased rates, and earnings based on higher incomes, the proportion of the total amount allocated to personal insurance for Social Security and other retirement payments, increased from 31 to 54 percent in the 10-year period. Concurrently, outlays for private insurance dropped from 69 percent to 46 percent(*11*). If we may measure improvement by what is sometimes called discretionary spending, i.e., spending for goods and services beyond the basic essentials, the overall picture is one of substantial gain. Today automobiles, television sets, air conditioners, and dishwashers are owned by a larger proportion of families than at any other time.

LEVEL OF CONSUMPTION

Families may be considerably better off than aggregate expenditure figures show, because expenditure data do not accurately measure the level of consumption(*12*). There are several reasons for this. Unless we consider these reasons when discussing the extent of poverty or trying to assist with budgeting problems of either the young or the older family, we may make grave errors. Let us see what some of these reasons are.

1. Current expenditures tend to understate consumption when a stock of goods is being used up, and overstate consumption when a stock of durables is being increased. Such things as furniture, automobiles, washing machines, and other equipment which provide income in kind are accumulated by young families anticipating use over the years. When families reach the age of retirement, their interest in adding durables drops, the nature of their wants changes, and their incomes may be substantially reduced. We note that expenditures in 1960-1961 for furniture, equipment, and transportation took just over a fourth (25.8 percent) of the total amount for consumption of urban families with the head under 25 years of age. This is in contrast to about a seventh (14.6 percent) for those families whose head was 65 to 74 years of age.(*13*)

2. The structure of family consumption is increasingly altered by the inclusion of services rendered directly by the government for which there is no direct payment(*14*). Too frequently we think of government services as benefits only to the poor. Income maintenance programs do provide support for millions so classified, but all families stand to improve their consumption by virtue of the broad services rendered by the government, especially through medical services, education, health, housing, and highway programs. In fact, middle- and high-income families may be the major beneficiaries under these programs. In education, for example, public elementary and secondary education which is available to everyone represents an annual government expenditure of well over $450 per pupil(*15*), but it is widely recognized that middle- and upper-income groups gain more from this subsidy than do others. Higher education is now within the reach of increasing numbers of the disadvantaged, but the problem of equality of opportunity remains. Foregone earnings enter into the decision of how long a poor child may continue in school. Lower-income families may have to choose income over extended education.

3. The work of women who remain in the home is seldom viewed in terms of foregone earnings or in terms of their contribution to the real income of the family(*16*). What does it mean to have 35 million women devoting full time to home-

making? What does it mean to have 25 million women in the labor force, three-fifths of whom are married and living with their husbands? It is clear that the full-time homemaker contributes to the consumption level of the family through home responsibilities—care of children, food processing, dressmaking, etc. To some extent this service is lost to the family when the homemaker takes a job to increase the money income of the family(*17*). There is evidence, however, that some working wives may carry as much responsibility for home production as before; that is, in effect they carry two jobs. Husbands may share increasingly in the housework. In either case the family's consumption level may be affected. Since 70 percent of the women who are employed are wives of men who earn between $3,000 and $10,000, it may be said that unpaid services are a more significant addition to family well-being in families at the lower end of the income scale(*18*). At the upper end of the income scale, housework, including the care of children, is still allocated to paid service.

4. Other contributions to consumption are in the form of food and fuel from the land (a source especially significant for farm families), the services of owner-occupied houses, and the services of other consumer durables. The significance of food from the farm can be illustrated by the decisions made by the Social Security Administration in developing the index of poverty. It was assumed that "the farm family in 1963 would obtain 40 percent of its food requirement from the home farm"(*19*). The widow whose only income is from Social Security payments and a small return on savings may be rather well off if she lives in her own mortgage-free home and is capable of caring for herself. If, in addition, she has a small garden, she may find her later years quite rewarding. Yet in certain classifications she would be considered among the poverty group.

5. Social welfare expenditures as a percent of gross national product have increased over the years from 2.4 percent in 1889-1890 to 11.9 percent in 1964-1965(*20*). Historically it is interesting to note that in the depression period social welfare expenditures rose to over 9 percent and dropped back to 4 percent in 1944-1945. Since then they have been rising steadily to the present rate. This, of course, represents a major source of income for millions of families.

We cannot leave the consideration of the relationship between income and consumption without noting that there are certain major items of family expenditure which may add relatively little or nothing to its well-being. Such costs may not be given adequate weight in the family budgeting process or in an appraisal of a family financial situation. These are expenditures which might better be classified as costs of production, or "additions to the stock of tools used to provide other goods."(*21*)

How, for example, is the family automobile used? Is it essential for use in earning a living? As cities are extended and distance between home and work increases, the cost of transportation rises. The outlay for automobile purchases and operation, according to the 1960-1961 Bureau of Labor Statistics Survey, took, on the average, $721(*22*). If other expenditures for transportation are added, the figure rises to $824, or almost 15 percent of the average total current consumption amount.

What purpose is served by the books you buy? And is membership in a club a family consumption expenditure or should it be considered part of the cost of maintaining a job? It should be clear that all consumption expenditures required for earning a living reduce the family's consumption by an equivalent amount.

Prices in the marketplace, of course, will affect how families use their money. The Consumer Price Index increased by 23 percent between 1950 and 1960, but the year-by-year change was not regular nor was the rate of increase consistent for all items.

The most marked annual increase came with the outbreak of the Korean conflict. The price of services increased over the 10 years by 38 percent, commodity prices by 16 percent, and durable goods by 7 percent(*23*). The major increase was in the price of services with an average rate of increase since 1947 of about 3½ percent, double the rate of increase for retail commodities(*24*). In such relationships any shift of substantial magnitude will alter the pattern of consumption among families and will have a different impact on various income and age groups. For example, older families will be less interested in lower prices for durables than in higher prices for services. Also, where people live may dictate prices people pay. Caplovitz' book, *The Poor Pay More,* raised questions about the level of prices paid for housing by families living in the slums of New York(*25*). We have seen how families, upon retirement with reduced incomes, try to maximize their income by seeking low-cost communities.

LOOKING AHEAD

Now we must ask, "What of the future?" A marked rise in disposable income will depend upon the nation's economic growth and the maintenance of a high level of employment. We must not lose sight of what we all know: to have more requires man to work longer, harder, and more efficiently. The "fruits of economic progress" can be wasted through luxury, war, or an unrestricted growth in population(*26*). Suggesting what the future will bring is hazardous, but let us try.

The ratio of savings to personal income may not change significantly, but there is some indication that it may drop due to the anticipated high rate of family formation expected in the near future. When the vast number of youth reach marriageable age and establish homes, they will want what their parents' homes provided, but they will not be willing to wait to accumulate funds for purchases. Their alternative is to borrow from the future, spreading costs over a longer period of time. This they can be expected to do.

For these young people, a sense of security in the use of credit is based upon these crucial factors:

1. An increasingly high level of education should mean higher incomes, higher rates of full-time steady employment, increased purchasing power.
2. There is no indication that women expect to withdraw from gainful employment to return to housekeeping. Young married women will work until the first pregnancy, then return to earning after children are in school.
3. As Social Security benefits are both increased and extended, a minimum level of future security seems assured. (One-third of the nation's hospital bills currently are paid by the federal government.)
4. Young people assume little responsibility for aged parents.
5. Home ownership as a value seems well established, so mortgage payments will probably continue to demand a substantial place in the family's economy.
6. Education will continue on a high priority list, but costs will be borne increasingly by the government.

The demand and cost for services will probably continue at an increasing rate. The Consumer Price Index for medical service alone increased from 122 in 1965 to 131 in April 1967, and older people whose requirements for services are high constitute an increased proportion of our population.

As far as taxes are concerned, they will undoubtedly increase for Social Security. And taxes at all levels will probably advance as the public demands and gets further "free services."

Finally, "demand-creating inventions" and technological developments should continue to tempt the consumer's last dollar as well as the one he borrowed. We can surmise that the public will continue to respond to aggressive salesmanship.(*27*)

Within this framework it is likely that the widespread use of credit will continue. The attitude toward the use of credit has changed from one of disdain to one of general acceptance. At the turn of the century those who borrowed for personal consumption were considered improvident. This is not so today. The case for credit use is clearly stated:

> Through the widespread use of credit, families have acquired financial resources with which to supplement current money income and to build an equity for the future. It has enabled them to acquire consumption goods, particularly houses and heavy durables, sooner than would be possible with current income and to spread their costs over a longer period of time. It also has an important stabilizing effect on consumer demand and hence the overall level of economic activity.(*28*)

The changed view toward credit and its "democratization" in no way negates the need for family financial planning or saving. In fact, the use of credit makes planning more essential and more difficult because commitments are made for extended periods. Confidence in judgments for the short term is generally greater than for the distant future. Substantial unpredicted changes can alter one's fortunes over time, goals change, and needs and wants are often fickle. Restricting consumption in a market as stimulating as ours is difficult. Yet concern for both the national economy and the family's economy requires that people save.

To the extent that the individual understands the relationship between his decisions to save or spend and the national economy and its operation, the greater our progress. The lesson is difficult to learn. Saving may turn out to be a function of age because the wants of young people tend to continually outreach their means for satisfying them. Age and a waning capacity for human productivity make one aware of the earning power of saved funds and the security which comes from having saved.

I should now like to turn to some areas of responsibility that need attention from home economists.

CHANGE: RESEARCH

The concern with matters at hand has demonstrated the continuing need for probing to find answers to many questions on which (a) to build the subject matter we teach; (b) to serve as a basis for judging public policy, especially as it bears on family welfare; and (c) to provide information for those who seek reliable data as the basis for business decisions. Knowledge in any field is a matter of slow accretion, so it follows that someone must assume the obligation for extending knowledge.(*29*)

Pertinent to this is Boulding's warning of the continuous discrepancy between "folk images of the world" and "scientific images"(*30*). The former rise out of the generalizations of man's experiences, whereas scientific images arise from the "organized expansion of knowledge." Boulding says:

> The fundamental difference . . . is that the folk knowledge is derived essentially from empirical inference and casual observation whereas scientific knowledge is derived from theoretical models according to the mathematical logic and carefully organized observation guided by inventions which extend the power of the senses.

This concept of differences between folk knowledge and scientific knowledge is especially important for those of us who work directly with families trying to replace folk knowledge with the scientific.

We know relatively little about many aspects of the problems of consumer credit or the larger field of investigation, family economics. In general, social science and research in family economics and welfare economics has lagged far behind research in the sciences. This arises from the "capacity of science to isolate a problem, set it within an investigative framework which allows for the exclusion of any primary concern for human involvement, and then apply various appropriate methods until an acceptable solution of the problem is arrived at or its possibilities exhausted"(*31*). Some problems of research in social science lend themselves to the same kind of mathematical analysis characteristic of research in science. The need for valid methodology in the social sciences is still a stumbling block and is itself an area of needed research. On the other hand, family economists may find difficulty in divorcing themselves from humanistic concerns, and there is some question about whether or not they should do this.

The amount of available data, both qualitative and quantitative, both macro and micro, relevant to family economics is stupendous. This wealth of data is largely unmined. This suggests that in the hidden volumes are answers to innumerable queries regarding consumer credit and other economic problems. Data need to be analyzed, relationships ferreted out, and findings published for appraisal. And a subjective observation: do I detect a reluctance upon the part of home economists to be critical of one another's work, to feel free to discuss and debate issues fundamental to progress? How can ideas be sharpened without criticism? I submit the belief that more critical evaluation of each other's work would lead to better methodology and better research.

CHANGE: EDUCATION PROCESS

The continuing cry for the extension of knowledge through more and better research brings us to the matter of education, especially on the college level.

Not everyone in the profession agrees with my ideas regarding professional education. However, I think a good case can be made for professional training in the fifth year of college based upon a four-year program of general education with an area of specialization.

For undergraduate majors in home economics a rigorous course in principles of economics should be minimum, with further courses in economics advisable. But the students would also need the opportunity to explore other subjects in the social sciences, in the sciences, and in the humanities. Major requirements so extensive as to negate a student's exploration of related areas are a detriment to the student's total scholarship. As for students' knowledge of consumer credit per se, the subject is but a branch of a sturdy tree, namely family economics, which must be nurtured through the roots of economic principles and theory. Economic theory is fundamental to any substantial work beyond the elementary level.

If the assumption is that the graduate program educates specialists, then certainly training in depth is essential. At this juncture, the student who, as an undergraduate, was introduced to allied subject matter will have an appreciation of the interrelatedness of knowledge and will know where to turn to find answers.

One factor in the dearth of research might be a lack of capacity to analyze problems. Are students on the undergraduate and graduate levels, or even in high school and elementary school, given appropriate introduction to and adequate opportunity for, learning the process of analysis? An analytical capacity is not genetically determined, but is achieved over time through appropriate nurturing within our educational complex. With large classes, a multitude of peripheral demands, and limited time, the responsibility for instruction of this nature may not seem feasible. This may be a costly error.

Then a question must be raised as to the adequacy of textbooks, their level of sophistication, and relevance to current knowledge.

The specialist in family economics, consumption economics, or home management in education, welfare, journalism, or business must be competent in economics, competent to deal with current problems and concepts. This specialist must be a continuing scholar whose interests are both broad and deep, alert to the changing value system and its impact on the lives of people. The task of our colleges and universities is monumental.

CHANGE: THE CURRICULUM

Do we need to be concerned about the whole matter of progression of learning on the various levels starting from grade school through college and into adult classes? Is there today a tendency to treat the subject of consumer credit as we have treated basic nutrition? A college student commenting on her experiences in an elementary nutrition course complained that there was little in the course that was challenging because she "had had" the "Basic Four" food groups almost every year since entering school.

Have students likewise "had" consumer credit? Do we understand the capacities of students at various levels to grasp facts, ideas, and attitudes? Do we understand how learning takes place? (Does anyone?) Do we provide instruction and materials appropriate to the level of comprehension and need? Do we tend to teach, on all levels, how to calculate the rate of credit and where to go for credit, never quite coming to grips with very fundamental concepts, principles, and theories which provide the structure for analysis of new and more complex problems? "Learning should not only take us somewhere; it should allow us later to go further easily"(*32*). The distance between simple interest and the permanent income hypothesis, for example, allows room for many, both students and scholars.

Have we made maximum use of what is being offered through other departments in our institutions, and have we been willing to so alter our own programs as to make possible the inclusion of courses of value to the general student body? To what extent has team teaching been used to unite home economics with other studies or disciplines? What are our objectives?

The time is long overdue when, as economists, we should feel a deep responsibility for economizing both the time of our students and the public's money.

CHANGE: COMMUNICATION

The American Home Economics Association's Workshop on Consumer Credit came into being because many leaders recognize that there is a great disparity between what we assume we are teaching and the attitudes and behavior of the general public in regard to common economic problems, specifically consumer credit. The general ignorance of and disinterest in many aspects of consumer credit seem irreconcilable with a sophisticated, relatively well-educated society. But the facts are clear. Most people resist the kind of reasoning required for decision-making. Comprehending economic theory is difficult; reasoning from economic theory is more demanding. Folk knowledge is comforting and gives a secure base, a little island to stand on and from which to defend attitudes. Change may be painful.

How can the gap between the professional and the non-professional be bridged?

Let us consider one answer.

Today there is something called "the education business." Some of those in the education business are IBM, Xerox, RCA, General Electric, Westinghouse, Litton, CBS, to name but a few who are developing ways to teach and learn through technology. *Hardware* is a rather recent addition to the educator's vocabulary. There is little doubt that this business will grow, adding products and services for all levels and for all fields of education. It is reported that a computerized system is being developed that will provide an individualized program for each child. One company has designed a junior college, others operate Job Corps centers.(*33*)

It is clear that no new theories of learning have evolved from the immense investment in the hardware and its promotion. What is needed is what is called *software,* or curricular materials. Whether or not we are currently teaching the "right" things, that is what will be spewed by the machines to a large universe. We understand the danger when we look at the size of the television audience and note how much time is spent urging the public to smoke the "best" cigarette. Contrast this with the size of an average classroom of students. An official of Xerox is reported to have said of people in education, "[They] don't seem to be interested in the why question. Something which can produce garbage more quickly is not necessarily a service"(*34*). And is it possible that the hardware will dehumanize instruction and creative thinking and that constructive analysis will be lost to mechanized efficiency?

If the "education business" is certain of its claims for unlimited expansion, and it seems to be, then it is professional groups which might well take some leadership to see that the software is appropriate and that mechanized instruction is worth the price. Just like credit, "education and welfare are becoming commercially profitable and that, finally, is why the industry is here"(*35*). Perhaps we need a conference with representatives of industry to seek out the potentials of new techniques for reaching the masses with information within a consistent, conceptual framework. In any event, our job is to find the way to reach the masses with material of quality and value.

SUMMARY AND CONCLUSIONS

Change has demanded that home economists be aware of trends affecting change in levels and standard of living and that they find ways and means to serve better the well-being of families. To this end groups of leaders might well be organized on state, regional, or national levels to consider the following:

1. Coordinated programs of instruction extending through all levels of education.
2. Special research needs and techniques for research in the social sciences, with an emphasis on family, consumption economics, and credit.
3. Recommendations for graduate education in terms of its quality and content in the hope that graduates will be better equipped for intellectual leadership and continuing research activity and that the length of time for obtaining the PhD degree might be reduced while improving the end product. The validity of a "teaching degree" beyond the MS might be considered.
4. Preparation of a compilation of research findings relating to consumer credit, comparable to that of Robert Ferber's "Research on Household Behavior."(*36*)
5. The possibility of instituting experimental programs in high schools to determine how the student's analytical abilities in the area of family economics might be improved. Consumer credit could be the vehicle used.
6. The entire matter of hardware and software in the educational program, formal and informal.

Change is inevitable, history is irreversible. In the words of Gunnar Myrdal, "The future is continually our own choice. There is no blind destiny ruling history."(*37*)

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THE SQUARE TOMATO,
OR, A LOOK AT THE FUTURE

HELEN G. HURD

In a recent issue of *Time,* there appears the following statement which is the basis for my pop title:

> The day is approaching—"closer than you think," says [John] Deere's Research and Development Chief Gordon Millar—when farmers will cultivate the soil with inaudible sound waves, work fields by computer-controlled programs, use television to monitor their remote-controlled machines. Another phenomenon in the not too distant future is square tomatoes, which, after all, could be more easily packaged by machine—and fit better in sandwiches.(*1*)

My assignment here was to speak on the topic *A Look to the Future.* But no one in his right mind would presume to predict what is going to happen. I believe it was Horace Walpole who said that "the wisest prophets make sure of the event first." If we cannot make sure of the future, we can at least look at some of the research for trends.

I am going to describe some of the trends, changes, and influences in some institutions other than the family. As home economists at a workshop on credit, you are principally interested in the family, assuming they will be the purchasing agent and credit user in the generation to come. But I suspect the future generation is not going to use credit with the same abandon as in the past. Credit is not an unmixed blessing.

You have discussed some "problem users of credit" in this workshop. I myself became a problem user when I discovered that the annual interest rate on a $100 small loan at 2½ percent per month on the unpaid balance is 31 percent and that a 4 percent new auto loan is actually almost double, or 7.4 percent. Someday we may even teach school children to learn the actual dollar cost of credit. But, of course, we don't evaluate things in dollars and cents alone. I have never converted the figures given in the advertisements to simple annual interest rates. I have only studied the color, the size, the convenience, the pleasure, and have bought for the joy of owning as many of the benefits of this affluent society I could afford on the installment plan.

I submit to you that the coming generations may not be as ingenuous or as materialistic as the generations of the past who created the affluent American society. Marshall Fishwick, editor of *American Studies in Transition,* in a fascinating article entitled "Folklore, Fakelore and Poplore" tells us that even our well-known American character Paul Bunyan owed much of his fame to a free-lance advertising man hired by the Red River Lumber Company to sell their products.

> When other ad men and promoters joined in, Paul came to symbolize the cult of bigness and power in a booming chauvinistic democracy. He mirrored a bumptious optimistic nineteenth-century robber baron—the collective state of mind of people whose primary task was the physical mastery of nature. Bunyan was *company* fakelore in a business civilization, the most likely to succeed.

But this kind of world is being repudiated today. The young are, according to Fishwick, "moving into realms their parents will never enter. The young have always done this, of course; only to return and occupy the stable, conservative positions they once decried. Here is the big difference: The generation which has just moved out may never come back."(*2*)

They are neither silent nor invisible. The nineteenth century epigrams that once governed the family, *Children are seen and not heard, Silence is golden,* and so forth, are anathema to them. They speak out and sing out in the ancient bardic tradition.

> Music and songs are the new youth's primary tools and means of expression. They shape songs to fit substance; *form follows function.*(*3*)

(In scientific biology, when form follows function, we call it the square tomato—easier to pack, fits better in a sandwich.)

> Symmetry and structural perfection are considered, but remain secondary to what has to be said.... The drive is away from the general sense of hypocrisy in diverse areas of life—a separation from older values.... Nostalgia and oversentimentality have lost their place.(*4*)

If, in the old days, function followed form, then in the days to come, form will follow function. Ethics will emphasize the pragmatic, the functional, the rational; or shall we say, behavior will be more pragmatic, more functional, more rational. I say this with no fear of contradiction: everything points to it; at least everything I have read points to it.

Our technology has created an enormous output of goods with obsolescence built in to insure continuous purchasing, and along with our desire for things, we still have remnants of a value system of an older day when thrift was a virtue, and you didn't buy anything you didn't have the cash to pay for. It is hard to convince some people even today that one's credit rating is a better indication of their affluence than is their income. But our "poplore" in modern advertising has done a pretty good job in creating the illusion that the rich life is the life of things, of property, of two cars in every garage, all bought on time.

This is our culture and we pride ourselves on our affluence, our wealth, and we boast that ours is the biggest and the best—a bombastic optimism that moved the ad man poplorist to create Paul Bunyan.

But the hands are not playing out so well. Our young people are in rebellion; there is a report that God is dead; we are caught in tragic political dilemmas both at home and abroad, all of which keep us constantly on the brink of disaster. We stand with Japan as being the highest among the nations in psychogenic death rate. Our price for achievement is inhibition, ulcers, high blood pressure, suicide, drugs, alcoholism. We read about things we don't understand—cybernetics, laser, heuristics, zetetics—and there is no comfort in them.

But change is all about us. All of our institutions are re-evaluating, and our norms are changing. Let me mention a few, as we think about the environment that surrounds the family of the future.

EDUCATIONAL TRENDS

What are the signs in the changing educational scene? It is apparent on all sides that education is far behind in its obligation to teach all the children and to provide them armor against the stresses they are bound to encounter. We are not making anywhere near the investment in human capital that we are in war, narcotics, prisons, and in other substitutes for the creative life.

In the cybernetic age, the curriculum will have to stress the problem-solving method. Teachers will teach children to teach themselves. The curricula of all schools, from elementary through college, will have to include instruction in and emphasis on philosophy, psychology, teaching methods, learning processes and methods of study, information retrieval and the use of libraries, cybernetics, science of research (zetetics), advanced reading and vocabulary building, and the science of problem solving (heuristics).(*5*)

Here is a dictionary definition of cybernetics:

> The study of human control functions and of the mechanical and electric systems designed to replace them, involving the application of statistical mechanics to communications engineering.

There is much more to be said about the revolution in education; let this suffice to indicate that if we expect to survive the age of cybernetics, our children must be taught to live more creatively and to use their learning to that end.

OCCUPATIONAL TRENDS

Another institution impinges closely on family life: the economic or occupational. Who will earn the living and how?

For this, I refer to a new book by Donald M. Michael, *The Next Generation*(*6*). He deals with three major trends: the macro- (or large) economy, technologic innovation, and the rationalization of society, with an overriding concern for the effects of automation.

In following current trends toward the future, Michael focuses repeatedly on a three-part social system comprised of professionals, technicians, and the unskilled:

1. The professional is characterized as:
    - needing a longer and more rigorous education which intensifies at an earlier age than now
    - becoming more fully and more intellectually identified with his work role
    - having less leisure time
    - being called upon for more stressful decisions as automation siphons out the routine ones that lent assurance to his prestige feelings
    - requiring constant re-education to keep abreast of changing demands.

2. The technician is required in increasing numbers to supplement the automated equipment in constantly monitoring and organizing the increased output of professional publications:
    - his work will be skilled and interesting, but not highly demanding or all-consuming
    - he will be retrained for several job changes during his lifetime
    - his more relaxed education, shorter work hours, and comfortable salary will make him the chief participant in the burgeoning recreation market. Society is therefore called upon for the difficult job of developing his disposition to spend leisure time and money in a manner that gains him satisfaction.

3. The unskilled are disturbingly portrayed as an increasingly distinct group during the next generation. Only limited progress out of this group is envisioned for the Negro population—perhaps the only manifestly negative prediction in the book. Some predict that a large and permanent class of unemployables is now being created.

If this trichotomy in the occupational structure does take place, it will have quite an impact on family life, perhaps dividing it into three distinct life styles, more distinct than now exists among lower, middle, and upper classes.

But another development in occupations interests us here: the rise of the indigenous non-professional worker in the community, drawn from the disadvantaged groups, who has successfully moved to a more stable life. I refer to the casework aides, the parent education aides, the homemaker, the youth corps leaders. This group will be characterized by spontaneity, pragmatism, and the lower-class approach, in which they will learn by doing, playing down the academic.

We have learned that the upper middle-class volunteer in these jobs tends to be patronizing in spite of himself. The middle-class Boy Scout leader is at a loss with slum boys until he learns to identify with their culture. Also, many upwardly mobile people tend to turn their backs on the culture from which they have come and become more hostile toward it than anyone else. They do not wish to be identified with a culture they have left behind.

Yet, people who can relate to both cultures are hard to find. The indigenous non-professional, mature, in good health, with a high school education and with some in-service training may be the doorway to more effective casework. The secret is not only in the quantity but in the worker's ability to relate to both cultures.

While we are on the subject of multi-cultural people, I read an interesting proposal recently to train peacekeepers and peacemakers. The thesis was that within the next generation the world will need a trans-national peace-keeping and peace-creating agency to cope with outright violence and help meet some of the desperate need for food, economic development, and a share in political power, needs which, when unmet among many of the world's people, often lead to war. The American ancestors of this new group of workers are the Sea Bees, the Peace Corps, Red Cross disaster workers. There are others in other countries. These people should be multi-lingual, and multi-cultural. Their loyalties to their home societies should be softened, and their loyalties to one another, and in some sense "to the world," strengthened.

The idea, first envisioned by a woman, is that it

> should be started by private organizations. Ultimately, on condition that the United Nations achieves a universal membership, the U.N. should be responsible for such a school and for the peacekeepers it trains. A Peacekeepers Academy would train men and women for two years to enter the new peacekeeper profession. . . . They should be trained in basic police skills, including the careful use of limited weaponry in necessary circumstances; in civil engineering, both in makeshift style and at more "professional" levels; in public health and basic medicine; in teaching and community organizing; and in grassroots diplomacy and mediation.(7)

What a wonderful opportunity for a young man or woman to be creative—to be active in creating the future, rather than rebelling against the fact.

I have spent some time on these occupational futures, not because they are any more valuable than many others that could be described, but because they typify new kinds of work that the future will require.

FAMILY TRENDS

There is very little of the past in all this. "Today and tomorrow threaten; in a sense there is no past." But there will still be our institutions—law, religion, education, work, the family. All will be affected, but all will survive. It is interesting to note the cycles that the family in our culture has lived through. Family sociologists describe the colonial rural family as a producing unit, authoritarian in nature, impelled by the need to survive a ruthless nature, and living by their own hands out of the earth. This family was surrounded by a host of traditional taboos with regard to sex, the status of women, the nature of children, and was held together by the all-powerful father image.

As economic conditions became better, the family changed to a consuming unit, more democratic in nature, less intimidated by the traditional taboos, but more conforming to the demands of what Thorsten Veblen called conspicuous consumption. There was more freedom for women and children, and an artificial togetherness was invoked to hold the family together. Instead of the family's being father-dominated, "momism" was recognized; and indeed, this family was child-dominated. We are in the last stages of this era, thank heaven.

According to a study reported in the February 1966 *Journal of Marriage and the Family,* it is not necessary to have a serene family life with a great deal of togetherness. The study showed that creative children are products of homes where there is a good deal of open, and not always calm, expression of strong feeling. The children are more creative when the fathers place less emphasis on moral and religious unity and companionship. The mothers of creative children show less concern for the family's place in the community and more concern for the emotional security of their children. The parents of creative children show less agreement between themselves. In short, creativity seems to thrive in a challenging atmosphere, far removed from the "dead hand of the past" and "smother-love" and "father bother."

Before I attempt to categorize the family in the cybernetic age, there are some clues to be derived from the U.S. Census. Robert Parke, Jr., and Paul C. Glick have reviewed recent statistics on marriage and the family, and they are willing to make some predictions about what the future holds(*8*):

1. Teenage marriages are on the downgrade. Fifteen years ago, 23 percent of women married before they were 18, but by 1966 only 15 percent of these youngsters are married.

2. Catching a husband is going to be a little more difficult than it has been in the past. In the 1960's, there will be only 93 boys in the main marrying ages (20 to 24 for boys) for every 100 girls in their main marrying ages (18 to 22).

3. Marriages will be more stable in the future. Since a number of census studies have shown the close connection between low income and the disruption of marriage, rising incomes in the future should lead to more stable marriages.

4. There will be fewer widows. The lessening age difference between husbands and wives will increase the chance that both marriage partners will survive into old age.

A new ideology will permeate the family of the future—one of independence and creativity. Being relieved of the rigors of producing everything they owned, wore, or ate, the family of the immediate past went on a mammoth spending spree. They bought everything, whether they had the money to pay for it or not. An obliging credit and installment system made this possible. The have-nots rose up in rebellion, for the differences were too obvious. If things could not be obtained one way, another way could be found.

The family in the age of cybernetics is less concerned with keeping up with the Joneses. Its members have other things to interest them. If the father is a professional, he will have limited time to worry about other people. A few mothers are professionals, but most are technicians because of the leisure involved. Housekeeping in the functional home is reduced to a minimum; gadgets are replaced by an entire built-in modular operation. Houses are cleaned by laser beam, food is cooked instantly. Even shopping is being done by television and computer.

If the mother and father are technicians, they have much leisure time, and they have been taught to use it. All family members have avocations that satisfy their creative interests. The homes are divisible into separate quarters, and the togetherness of a previous age is as forgotten as the Edsel.

These are the people who will read about our time in textbooks, only there won't be any textbooks. They will see and hear the sights and sounds as preserved in video-stereo. I can imagine how amused they will be at the picture of a family gathered around the television with its strange assortment of sex and homicide. But the children will probably be spending the weekend surfing at Sunset Beach, Hawaii, supervised by professional airline and recreation aides.

Who remembers the family gathered around the nickelodeon in the light of the oil lamp? Who remembers the family gathered around the television? These are the tales of long, long ago. Batman is as dead as Darling Nellie Gray.

Well, it is time to stop these speculations. It has been said that in the twentieth century an optimist is someone who thinks the future is uncertain. I am an optimist. Just because there is considerable consensus about trends in the future does not make them a certainty.

There is nothing inevitable in history. We may draw inferences as to where certain trends may lead, but the ultimate answer lies in man himself. His intimate relation to the natural world created a way of life, a set of ideologies, and an ontology that has served until now. His intimate relationship with his technology through cybernetics must of necessity result in a new view of himself and his world, a new view being forged even now.

The concept of a society where creativity is an ethic is a challenging one. We would be less than human if we settled for a "fun society" of irresponsible sex, gambling, and free spending. Yet, the alienation of many who will be simply monitors of the machine makes it questionable whether we can continue to base our society on the work ethic of the past.

The irony of it is, as many have pointed out, that the habits and way of life that have created the new leisure have left us unprepared to enjoy it or even accept it. The persistence of the work ethic and our failure to appreciate "the finer things of life" are a present barrier. But as we see the work ethic changing and as the new media bring music, art, poetry, sports, history, geography, science, and the rest of the world directly into our lives as experiences, perhaps the medium *will be* the message, and we will be stimulated to participate in the next development in man—the application of his creative powers to problems of truth, beauty, community, and personal peace.

As an innovator and inventor, man is supreme. But he has let his innovations and inventions master him. I hope the future gives him the opportunity to master the art of living. It seems to me that this is his only hope of survival in the cybernetic age of functionalism, rationalism, pragmatism—and the square tomato.

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PANEL: WE TAKE THIS HOME

GWEN J. BYMERS (MODERATOR),
SARAH MANNING, MYRNA P. CRABTREE,
BETTY E. HAWTHORNE, NATHALIE D. PRESTON,
ELOISE COFER

At the close of the Workshop on Consumer Credit in Family Financial Management, several home economists were asked to comment on ideas presented during the week. The material presented here is from the tape recording of their remarks.

GWEN J. BYMERS:

The title of this panel may strike someone as presumptuous. "We Take This Home"—how could this panel assume what anyone will take home from this Workshop on Consumer Credit? The title was chosen for two reasons: (1) that it would act as a reminder that we have a responsibility to carry out some kind of follow-up program when we go home; and (2) the idea that it would give us some flexibility in the way the summary of the Workshop would be handled.

All the participants on the panel volunteered. They represent diverse professional assignments, and there is only one in the group whose work is involved with teaching money management directly.

We are not going to present this summary in a paper-by-paper or session-by-session appraisal. Rather, the participants will comment on the conference in general, drawing on the ideas that were stimulated by our several discussions at the end of each day of the Workshop.

What happened as we tried to jell our discussions into a framework so that everybody would have a clutch of ideas to talk about has been something that was not intentional but I think it was fun. There were many excellent papers delivered at this Workshop, some that will be particularly dog-eared because we are going to refer to them so often in our files for basic information and fact. If these are not mentioned in the discussion following, this is not because we deemed them less important, but because we thought it would be interesting to see what each of us in the panel received as a new or big idea. And so I am going to start out by calling on Sarah Manning to say what she wants to about the highlights of this conference.

SARAH MANNING:

The whole idea of the checkless, cashless society (or as the *Wall Street Journal* puts it, the "less check society") really does excite me. I thought it might be interesting to take another look at that.

Imagine that you are going to go buy a car on credit and that you have to have some kind of contractual arrangement. In this new society how would you go about doing that? You would go to the dealer, order the car, order some transfer of money for the down payment, authorize it, and then arrange the credit. With whom do you arrange that credit? With the same financial institution that you transferred your money from? Or to? Someone checks your credit and gets a lot of information in order to know whether you are good or not.

Aren't we really going to need uniform credit codes in order to do this? Not only do the codes need to be uniform from one state to another, but how about rates? And then if I have vast resources and I'm a good credit risk and Jo Staab down there is just a lousy credit risk, do we then have a differential in the rate to cover the risk? Because she's such a poor credit risk, how do we scale? We are going to start to have quite a different base for credit rates and credit codes under the new system.

Also I can see, because the consumer and consumer credit are very dynamic parts of our national economy, that as long as someone is checking on my credit, they can also check on the economy and—let's see, are we getting too many people buying cars this year, or this month? Or maybe we ought to encourage somebody to buy a better car. Who is going to be dictating this decision? And how many other people are going to get into it?

There are some interesting implications here. With whom are we going to be making credit arrangements? Here at the Workshop was the first time I heard a banker admit publicly that there is the matter of control. So far all of the things I have read and heard on the checkless, cashless society have been presented by bankers, and there has been a strong presumption that the banking industry is the one that is going to be handling this. I keep wondering about all our other financial institutions and whether they are going to just sit back and say, "Sure we will let the bankers handle all the credit and the money." The federal government so far has been printing the money. What about those arrangements? Who is going to be controlling them?

Along with these problems of who is going to control the paper flow, and how far the control is going to go, and the kind of uniformity we are going to need, and what kind of diversity within the uniformity we are going to need, and how we are going to determine this, there is another very practical question. That is that we no longer are handling money.

Last spring I wrote to a bank in Chicago and made a suggestion. They were kind enough to write back and say that it was very interesting and they would refer it to another person, etc., and maybe they will. Those who advocate this new system keep saying, "Well, once a month you will get a statement of where you spent your money, and this will help you with budgeting." But after you have already made the decisions and spent it, it is going to be a little difficult to budget. Right now we all have so many credit cards that what I was suggesting to the bank was a credit register. That is, if they applied the regular check book register idea and made a place for credit cards, and then a place to register charges on credit cards, that maybe it would help some people keep track of how far they are getting into debt.

This certainly is no solution. Many of us don't keep our check registers, so I don't know whether we would keep credit card registers either. But we must devise—and home economists can help industry out there, I think—some simple approaches to budgeting without money. Today we have dollar bills, and how many of you have said, "I just hate to break a 10 dollar bill or a 20 dollar bill because it goes so fast."

Many of us are pretty sophisticated about money. But there are people to whom money is not nearly as abstract a concept as it is with us. We handle it mostly through checks and that is pretty abstract, but there are lots of people who don't use checks, who have to have that money in their hands. They need so much to have it in their hands that they put it in envelopes or separate little pouches, moneybags of some kind, just so that they can say, "Well, I have 10 dollars here and I have 5 dollars there for this." It is a very concrete kind of thing.

As we move farther into this checkless society, cashless society, we are going to have more abstractions. Somehow we are going to have to help these people see money when they no longer have the cash in their hands. Someone asked earlier in the conference, "Won't we have an alternative to have cash in the new system?" But consider, if there is less of it around, we will have less opportunity to have that alternative, just as some of us are using it less now.

Someone also mentioned the loss of the sense of money-getting along with our sense of spending it. This will be a definite problem as well as questions on guaranteed annual wage, negative income tax, and how or whether we should tie the personal level of consumption to a personal level of production. At least in concept, we have tied our level of consumption to our level of production by money. As the tie-in gets to be more and more an accounting procedure, well, "Why should they account to my account more than they account to her account," and "What about my level of consumption versus her level of consumption?" Thus we put more and more of a distance between the idea of producing and the idea of consuming.

We will have some work to do in this area.

MYRNA P. CRABTREE:

One of our conference speakers reminded us that we need to be concerned with human values as we talk about financial management and consumer credit.

I am prefacing my remarks with this thought because, as I have heard some of the questions, I know how impersonal we can be about financial management. However, I hope that we recognize that feelings are also facts and that unless we work in relation to feelings (as Faith Prior pointed out, laughter and feeling were important in her approach), we will find ourselves working in a vacuum.

Getting a little more on the objective side, one of the significant points that has been underscored for me at this Workshop is that, because credit has become such an important aspect of our competitive economy and permeates the practices of all segments of American society, therefore the development of uniform laws and the function of Federal Trade Commission guidelines are a must.

Another vital point made was that only when the consumer has the right to disclosure of terms and all necessary information about credit transactions at the point of sale will fair play become a reality.

The rich resources of this Workshop have deepened my commitment to taking a responsible role in the promotion of fair play in the arena of consumer credit to help maintain integrity and provide realistic education for today's and tomorrow's citizens.

BETTY E. HAWTHORNE:

This Workshop to me has been both informative and challenging. And I would add that I am probably taking home more than anyone else who came because I had more to gain.

I've long had an interest in economics, particularly in family and consumer economics. As an undergraduate I elected a number of courses in economics and business law because I found them stimulating and interesting. Then, as a graduate student in nutrition, I broadened my education with a number of courses in family and consumer economics. Although I have never operated in this area specifically, I have found that in teaching nutrition, as I did for many years, any information on consumer and family economics which I could draw on enhanced the course a great deal. But certainly most of my concern, or much of it, has been as an informed citizen.

There were a number of specifics that we panelists talked about in our after-day sessions. I particularly wanted to bring up three or four ideas that stood out during the week, not because they are new, but because, although I may have known them once, they have been pretty obscure.

1. *The holder in due course.* I was well aware that if an installment sales contract was transferred to a sales finance company, you paid the sales finance company. But I was not really fully aware of the complete lack of redress that the debtor has against the original seller or against the finance company that now holds the contract. You now have to go back to the original seller without really as much on your side as you might have had if he were still your creditor.

2. *Deficiency judgments.* If a creditor repossesses for incomplete payment he not only can take your goods, but if he doesn't reclaim the full amount that is still owed when he tries to resell, he also has a chance for judgment against you. I don't think this is always necessarily wrong, but as a citizen I haven't really been aware of this completely.

3. *Confession of judgment.* This is a clause included in many installment contracts that I would guess not many people are always aware of. Specifically, it permits the creditor to garnishee wages without a court order because the debtor previously has given this authority.

The Workshop discussion on contract content, as well as on the terms that are parts of many contracts, made me think of what we as educators are doing about reading and learning in the educational process. We have had mentioned here the idea of generalizations which certainly have a very real place in education. We hear around our campuses a great deal of emphasis on increased reading speed. There is also emphasis on comprehension but much of it is a generalized kind of comprehension. It seems to me that there is a very real need to read slowly and to read critically at certain times. And we need to know when to make a differentiation between the ways in which we should read.

Much of what I have learned here at the Workshop has increased my personal understanding, but it also has increased my commitment as an educator and as a home economist. Most of the thoughts that I have had during these days regarding education in general are very well expressed in Ruth Bonde's paper.

I would like to summarize my ideas in this way. I think that educators in a university have a real responsibility, not only for the professional education in family economics, but to train people to help specifically with the solution of these problems in whichever field they may become educators. We also have an increasing responsibility in terms of general education, not only to our home economics students, but also to making education in family economics generally available. It certainly is an area that is of significance to every university student. This education is important if we are to have an intelligent citizenry that can eventually improve the marketplace of credit.

We also have a concern in universities for continuing education of the professional; we have a need for *re-education* of our home economists who need to reenter professional areas, and we have a responsibility for lifetime education of citizens. We should do this either directly or as we influence the other professionals who are educating.

In taking home the material from this Workshop, I believe we can make an impact upon our own states if we operate not only independently as university college administrators, as college educators, as extensionists, as high school teachers, as health and welfare or business people, but cooperatively through our own state home economics associations. It seems to me that we need not only to bring together our talents for the greatest strength, but that through our associations we will be better able to tap all the talents which are essential. The business community and all of the related professions together are important in bringing an understanding of consumer credit to the greatest number of people. This is how to develop the informed citizenry needed to improve the marketplace of consumer credit.

NATHALIE D. PRESTON:

Home economists have been called "budget experts," and certainly, by virtue of our concern for the well-being of families, helping them to manage their money properly makes for their well-being.

We have also heard that bankers and lawyers frequently assist clients or families in the allocation of income for purposes other than items of living, primarily in areas relating to indebtedness and support. Evidence seems to indicate that in making such adjustments in family income, little if any consideration is given to family needs, values, or what it really costs the family to maintain itself.

In her paper on budget guides, Faith Clark identified several standards for assisting those persons or agencies that help families make decisions about the distribution of their incomes. These standards provide equitable and valid data for such use. The standard established by the Bureau of Labor Statistics for the city worker's family and the one for the retired couple may be adapted to a particular area and priced locally to determine costs. The Budget Standard Service of the Community Council of Greater New York to which Dr. Clark referred in her paper has provided an indispensable tool to help those of us in the New York area who counsel families on money management. They are also valuable in the establishment of equitable fee scales and the assessment of income adequacy.

I would suggest that Dr. Clark's paper and the publications listed at the end of it be studied carefully. These can help you to adapt the city worker's family budget and establish budget standards for use with your students and clients, thus providing the base upon which you may evaluate or gauge budgetary needs of families in your own sections of the country. This then provides the objective data to work with, without consideration for the many other elements that bear upon a family's handling of money.

What does money mean to a family? What is the emotional or psychological impact of too little money? Why should there be problems when there is apparently sufficient money to fulfill a family's needs and desires?

Faith Goldberg's splendid analysis of the many psychological reasons for money management problems and indebtedness provides us with insight into areas that must be studied by all home economists who are concerned about the family in a money world (despite the checkless and cashless society, it is still a money world).

This insight permits objectivity and understanding in fulfilling our roles as budget counselors to the people or agencies we serve. We deal with the tangible aspects of clients' problems without threatening them in areas too painful to acknowledge. We are thus helpful in handling the overt manifestations of a client's difficulty, and by easing it, allow the more deepseated problem to be resolved by a member of the appropriate discipline.

One further point in dealing with those who come for help in managing their incomes. We must be alert to where they are in the life cycle. I am sure you are all aware of the varying needs at each point of the life cycle, but we must not overlook the importance of proper guidance regarding the use of credit and in establishing goals to those who are on their first jobs, to the newly-married, to parents during the years of young and growing families with the need to plan for the costs of education later on, and to those in the later years planning toward retirement.

These are some of the elements in dealing with money management that are frequently part of my experience. However, all home economists must be cognizant of the relationship of the family income to the family's values, its needs, consumer credit, and the cost of living. We must remember that we are dealing with people as well as with figures and contracts, people like you and me who have hopes, fears, and feelings.

ELOISE COFER:

In considering this Workshop, one of the things that is very evident is that we have moved a long way from the Greek city-state society that separates so clearly the economy of the home from the economy of the marketplace. Yet we do need to move even closer to our concepts and our arrangement for business in the marketplace as consumers and as citizens. In dealing with this problem of teaching about credit I would say "aye" to what Betty Hawthorne said about the necessity for preparing at the college level those students who will be employed in services such as the Extension Service to teach the citizen at the county and grass-roots level.

One of the things that was quite important in our discussion this week was the concept that it isn't necessary to use a difficult formula for the average adult and the youthful consumer in order for them to figure the terms of credit and the improvement of income that they may have from savings. But we would hope that, through our programs and our increasing knowledge, we can develop a more sophisticated consumer, one who will be able to use his credit more knowledgeably.

Another thing we should take into consideration is that in order for us to use any of our credit systems, we are going to have to have better training for our agents and for those who are working with people in the decision-making process. We talk a lot about that at the college level, but very often we don't have agents who are adequate in this particular respect.

Another nugget from the presentations was the admonition to capitalize on the experiences of the people with whom we work in building the curriculum for our teaching. Certainly, we need to listen and understand what our clientele are saying and to explore more deeply their attitudes, ambitions, fears, and potentials, rather than assuming that we know what they think. Erna Carmichael brought this out especially well.

I am reminded of the story a home economist in Washington, D.C. told about helping the doorman in her apartment building buy the car she was turning in on a new car. She took him to the dealer and got a good deal for him. Coming home they were discussing what he was going to do with his car, and he said, "I will take care of that." He then sold his car piece by piece, and got more from that automobile than she got for her trade-in. The home economist pointed out that here was a man with a very low income who knew how to operate in an entirely different society than she did. I think we can learn a lot from this.

In this regard, many of our speakers have implied that there is as wide a variety of patterns of learning and accumulating money as there is of using credit to spend it. It is the knowledge and understanding of these facets of getting, as well as spending, that will help us in teaching the credit story.

Another important tool is Faith Prior's concept of "one message, many channels," and it can be used in every phase of our teaching. Too often we spend too much of our time developing a variety of ideas in teaching a subject, rather than developing one idea well and then channeling it to various audiences. Creating awareness is the first step in the communication process, which our media people tell us is the equivalent to education.

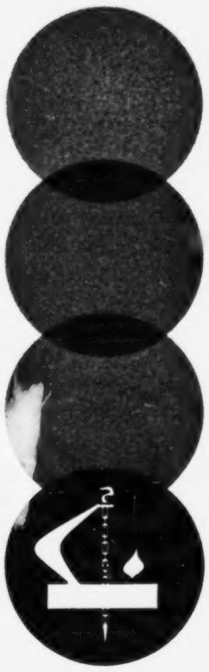
Many of you are aware that the Extension Service has a long-term program called "Focus on Families." We feel that it is going to be very important for us to try to find the various ways in which the credit story will fit into the five phases of awareness, family stability, consumer competence, housing, health, and community resource development. Certainly the information given here will be a guide to a framework for teaching and will help us identify problems in our own states.

GWEN J. BYMERS:

I had one idea that I wanted to communicate when I was talking earlier, and I will claim the last word now. Many of you here are not accompanied by your extension state leader, the dean of your home economics school, the director of public education from your state, or a person in social work in your state. Therefore, I am sure when you go back home, you not only will find these people very receptive to the things that you are coming home with, but you will probably find them more than willing to cooperate with you in whatever way their agency or organization can in promoting some kind of follow-up.

And now I would like to repeat what somebody said as we were discussing this the other night: "The follow-up isn't going to happen 'bing' on this conference; it is going to be here, there, continuing." And this will be our payoff in the long run.

APPENDIX



Regional and State Follow-Up on Consumer Credit 166
Workbook on Consumer Credit 167
Consumer Credit Bibliography 173
Department of Defense Table for Computing Approximate Annual Percentage Rate for Level Monthly Payment Plans 175
Applicability of DoD Table to Irregular Installment Payment Contracts:
  Illustrating Use of Form I 176
  Illustrating Use of Form II 177
Roster of Workshop Participants 178

REGIONAL AND STATE FOLLOW-UP ON CONSUMER CREDIT

As part of their follow-up on the national Workshop on Consumer Credit in Family Financial Management, most participants planned regional and state activities. Meetings scheduled or held as of the date this Proceedings went to press are listed below. Persons wishing information on follow-up activities may write to the American Home Economics Association, or to participants living in the geographic area of interest (see Roster of Workshop Participants page 178).

STATE	FOLLOW-UP *	DATE **	LOCATION
Alabama	Workshop	March 21-22	Tuscaloosa
Arizona	State Meeting	April 27-28	Chandler
Arkansas	State Meeting	March 8-9	Little Rock
California	Workshop	January 24	Berkeley
	Workshop	January 18	Los Angeles
	Workshop	March 7	Fresno
	Workshop	May 25	North Central District
Colorado	Workshop	January 8-11	Denver
District of Columbia	Workshop	March 2	Washington, D.C.
Illinois	Workshop	March 16	Macomb
	Workshop	April 24	DeKalb
	Workshop	October 24	Carbondale
	Workshop	October 26	Chicago Area
	Workshop	Fall	Springfield Area
Indiana	State Meeting	April 26-27	Indianapolis
Iowa	Workshop	April 26-27	Ames
Kansas	State Meeting	April 1	Wichita
Kentucky	State Meeting	April 5-6	Louisville
Louisiana	Workshop	February 16-17	Alexandria
Maryland	Workshop	May 4	Silver Spring
Minnesota	Workshop	January 9	Mahnomen
	Workshop	January 4-5	St. Paul
Missouri	Workshop	June 17-21	Columbia
Montana	State Meeting	February 9-10	Missoula
	Workshop	July 22-26	Missoula
Nebraska	State Meeting	April 26-27	Lincoln
Nevada	Workshop	February 24	Reno
	Workshop	August 5-16	Las Vegas
New Hampshire	State Meeting	May 17-18	Bedford
New Mexico	State Meeting	April 26-27	Albuquerque
	Workshop	August 12-16	Las Cruces
North Dakota	State Meeting	March 14-15	Grand Forks
Ohio	State Meeting	March 28-30	Dayton
Oklahoma	Workshop	April 20	Oklahoma City
Oregon	State Meeting	April 6	Bend
Pennsylvania	State Meeting	May 3-4	Pittsburgh
Rhode Island	Workshop	February 12	Providence
South Dakota	Workshop	April 9-20	Mitchell
Tennessee	Workshop	June 5	Memphis
	Workshop	November	Knoxville
	Workshop	Spring 1969	Knoxville
Texas	Workshop	January 26-27	Fort Worth
Virginia	State Meeting	March 13-16	Richmond
Wisconsin	State Meeting	May 3-5	La Crosse
	Workshop	June 10-12	Madison
Wyoming	State Meeting	April 27	Riverton

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* Follow-up listed as "State Meeting" indicates regular meetings of state home economics associations at which consumer credit is featured as a program topic.

** 1968 unless otherwise indicated.

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WORKBOOK

ON CONSUMER CREDIT

PREPARED BY RICHARD L. D. MORSE

CREDIT is based on mutual trust and understanding, involving rights and responsibilities of the contracting parties. For the contract to be enforceable—that is, to be recognized by a court of law—it must be written within the context of the prevailing law. Prevailing law varies by states.

Each state has its own laws and regulations governing credit. Even though the laws of two states may be identical, they may be quite different in effect because state courts render different interpretations in light of their state constitutions or prior court decisions. Hence, it is most difficult for one not trained in the study of law to read statutes and interpret them reliably.

As preparation for the AHEA Workshop on Consumer Credit in Family Financial Management, the planning committee urged all the invited participants to familiarize themselves with their state laws by talking with such authorities as officers of local and state bar associations, the state attorney general, other state officials such as the commissioner of insurance, and officers of banks, credit unions, and finance companies. The committee believed that the background information thus acquired would make the Workshop experience more meaningful for the participants. In addition, these contacts could offer opportunities for establishing relationships with individuals who could assist in the follow-up regional or state workshops.

The workbook presented in capsule form on the following pages was prepared by Richard L. D. Morse of Kansas State University, a member of the planning committee, for distribution at the Consumer Credit Workshop. Dr. Morse has given permission for the workbook, or any part of it, to be reproduced for use in follow-up activities. The JOURNAL also extends permission to reproduce any part of the following five pages.

CREDIT—POSSIBLE REPERCUSSIONS

- Wage Assignment
- Garnishment
- Confession of Judgment
- Repossession
- Holder in Due Course
- Usury

REVOLVING CREDIT

- Cost Comparisons
- Revolving Credit Sequence
- Revolving Credit Systems
- Minimum Balance
- Monthly Payments
- No-Charge Period
- Credit Life or A & H Insurance
- Equivalent Annual Percentage Rate

CONTRACT CREDIT

ACTIVITIES AND QUESTIONS

CREDIT—POSSIBLE REPERCUSSIONS

A CONSUMER CREDIT transaction involves an agreement. It specifies the rights and responsibilities of the creditors and the obligors. To protect such agreements a legal environment has developed. It reflects the unequal bargaining power of the parties.

Creditors are totally involved and legal talent is attracted to the creditors' interests by higher economic rewards. On the other hand, consumers are less inclined to scrutinize credit laws. Most have no occasion to learn about the legal remedies that creditors can impose on the relatively few consumers who default. Hence, most consumers are oblivious to the legal framework and tend to assume that those who are caught up in legal entanglements were either foolish or snared into unconscionable transactions by unscrupulous creditors.

What follows is intended to open the door to an area of law that needs consideration by consumers who are not already personally involved and who can give it objective study. Furthermore, since this is a matter which varies greatly among states, it is most appropriate to institute inquiry at the local and state level. That is where the action is.

This can prove to be a new and interesting adventure. We trust that you will find it so.

● Wage Assignment

CREDIT is extended with the expectation of its being repaid. The borrower may give greater assurance of this by *assigning* to the creditor the right to attach his wages in the event he defaults in his payments. This procedure is called wage assignment.

● Is wage assignment permitted in your state? Yes__ No__

● Is there a limit on the amount of wages which can be attached? Yes__ No__

● Is the law uniform for all creditors, or are some creditors able to obtain wage assignments while others are denied this? Yes__ No__

● If yes, what is the pattern in your state? Comments:

____

● What other limits or limitations or requirements restrict wage assignments in your state? ____________

____

NOTE: Wage assignment differs from wage garnishment in that the assignment is by a voluntary contractual arrangement whereas garnishment has the force of law behind it and usually requires court action.

● Garnishment

CREDITORS unable to collect from a debtor may turn to the courts for assistance in some states. With a court order the creditor can go to the debtor's employer and "tap" the debtor's flow of wages even if the finance papers do not include a wage assignment. By court order the debtor's employer is required to make payment to the creditor, directly or via the court.

Employers are sometimes harsh with employees whose wages are garnisheed. The employer may consider it indicative of financial irresponsibility. Furthermore, the garnishment results in added expense for the payroll department, requiring separate payments for the employee's creditors. The reaction of some employers is to dismiss the employee immediately or after repeated garnishments.

● Is the garnishment of wages allowed in your state? Yes__ No__

● In most states garnishment is restricted to situations when a court judgment on the debt has been obtained. Some states, however, permit a formal garnishment upon initiation of the lawsuit by the creditor and prior to judgment by the court. In your state is garnishment possible? Yes__ No__

If yes, what, if any, restrictions are placed on the creditor so that he may not collect "debts" not owed him which the presumed debtor might contest? ____________

● Under what circumstances may a court make a judgment resulting in garnishment without the defendant's (consumer's) first appearing in court? ____________

____

● If the creditor holds a "confession of judgment" previously signed by the debtor, may the court judgment be rendered without prior notification of the wage earner? Yes__ No__

● In regard to employees of state agencies, does your state permit their wages or salaries to be garnisheed? Yes__ No__

● Can municipal or county employees' wages or salaries be garnisheed? Yes__ No__

● Since the livelihood of most families depends on a regular paycheck, the loss of income through garnishment may cause great hardship to the creditor's family. The law, therefore, may place a limit as to the amount or proportion of wages which may be garnisheed. Is the amount or proportion of wages that may be garnisheed limited in your state? Yes__ No__ If yes, what is the limit?______

● If the amount of wages or salaries left after garnishment is insufficient to provide a minimum level of living, will social welfare in your state or county provide an allowance sufficient to remedy the deficiency? Yes__ No__
Comments: ______________________________

____

● Confession of Judgment

THE CONSUMER-OBLIGOR may give his creditor, when signing a note or a contract, power to confess judgment for him should he default. The creditor then can obtain a judgment (a decision by the court) by going to court and admitting debt for the debtor. That is, by signing a contract containing a confession of judgment clause, the debtor waives his right to appoint his own attorney, to any judicial process, to trial by jury, and "confesses" he owes the moneys claimed by the creditor. He is without legal defense in legal action instituted by the creditor to collect the debt.

- Is confession of judgment permitted in your state? Yes___ No___
- What types of creditors, if any, are specifically prohibited from using this process in your state? ______
- Comments regarding other modifications in use of confession of judgment. ____________________

● Holder in Due Course

OFTEN THE SELLER does not have adequate capital to finance all of his customers. To replenish his finances he sells his credit "paper" to a financial institution. The consumer then makes payments to this financial institution. This procedure enables the retailer to concentrate on sales, leaving the banks and finance companies to concentrate on servicing credit. In this type of situation the financial institution becomes the *holder* of the paper and will be paid *in due course*. Thus, he is referred to as "holder in due course."

Now, if the item purchased is defective—that is, if the car is faulty, the repaired roof leaks, termites reappear, or the furnace does not work—can the debtor stop payment until the deficiency is corrected? If he could stop payments, the bank or finance company would suffer for errors or defects for which they were not responsible. On the other hand, the consumer may no longer be able to contact the original seller—especially in the case of a house-to-house seller who has left town.

- Would the claim of the bank or finance company for continued payments, even for faulty services, be enforceable in court? Yes___ No___
- Your aged mother or young newly married daughter calls to tell you that she has just signed a contract with a door-to-door salesman. After he had gone she realized that she had been oversold; yet she had signed a contract. What recourse would your state law permit such "foolish" consumers? Must she pay? Yes___ No___
- Does your state law provide for cancellation of contracts signed away from the place of business within 24 hours? Yes___ No___; within 48 hours? Yes___ No___; within 72 hours? Yes___ No___

● Repossession

ANOTHER METHOD of assuring the creditor that the credit extended will be repaid or replaced is to allow the creditor to take direct action. Thus, if the borrower fails to make payments as scheduled in the contract, the seller is given by terms of the contract the right to repossess the goods.

- Does your state law provide that the consumer be notified prior to repossession? Yes___ No___
- Does your state law allow the creditor the "right" to enter the premises of the debtor for the purposes of taking physical possession of the security without judicial process and without being subject to action in trespass? Yes___ No___
- Does your state law allow the debtor to move such property
  - Within the state? Yes___ No___
  - Out of the state? Yes___ No___
  - Out of the country? Yes___ No___
- Is the debtor obligated to continue payments even though the goods have been repossessed? Yes___ No___
  Comments: ____________________

● Usury

HISTORICALLY, one of the most persistent evils has been that of usury—an excessive interest charge. Most states have a maximum rate that may be charged. Then, by special legislation specific creditors are authorized to charge rates higher than this maximum.

The American Bankers Association expressed fear that disclosure of the true annual rate on consumer credit, if stated as a percent per annum, might trigger courts to declare some bank loans to be usurious. As a result, the Proxmire Truth in Lending bill, as passed by the Senate, delays until 1972 the disclosure of the rate as a percentage and allows the rate to be expressed in dollars per hundred per year of the average unpaid balance. It is hoped that by 1972 states will modernize the legal ceiling on rates sufficiently to cover the high bank rates.

Representative Sullivan's Truth in Lending bill extends the time to July 1, 1968. It also establishes 18 percent as the maximum legal rate, thereby proposing a federal usury rate.

- The maximum interest rate that may be charged without being declared usurious is established by states. What are the usury rates in your state? ___% ___% (Does this represent a percentage of the average unpaid balance or of the original balance? __________)
- At this rate the credit needs of most consumers could not be met so special legislation has been enacted in most states to allow certain types of creditors to charge at higher rates. What classes or types of creditors in your state can legally charge more than the usury rate?
  ____
  ____
- What do you think would be a realistic usury rate?
  ____________________%

REVOLVING CREDIT

Most stores and an increasing number of banks offer "open-end" credit. The consumer applies for credit privileges; the creditor sets the maximum amount of credit the consumer can use; and within this limit the consumer uses credit, agreeing to:

- Repay monthly—usually in amounts of 1/5 or 1/10 outstanding credit balance.
- Pay a "small monthly service charge" usually at 1½ percent—figured on an unpaid balance."

This seems quite simple. But studies of many stores show that even among those using the same rate, cost varies considerably because of the different balances used.

● Cost Comparisons

A revolving credit billing sequence has been prepared for you to take to three stores or banks with open-end credit plans to figure costs. Use of the same schedule of charges-payments-returns will facilitate detection of differences in credit systems. Recognition of these differences will help to cultivate a better appreciation of various trade practices and to evaluate their service to customers.

See the form below and fill in spaces marked by a $ sign.

For further definition of the plan of each store, complete the next sections for specific points.

Note: In making this assignment it is assumed that:

- Consumers expect to pay for credit services. Consumers expect costs to vary with the amount and time credit is used. Consumers should be provided sufficient information to figure out these costs and how they would vary if other use is made of the credit services.
- Those extending credit want consumers to know what costs to expect so that they can use credit wisely and confidently. Most retailers and bankers want the public to understand their business. They will be pleased to explain their business practices.

► Revolving Credit Sequence (Post the service charges and complete the balances)

DATES	OPENING BALANCE	PAYMENTS	RETURNS	PURCHASES	UNPAID BALANCES	SERVICE CHARGES @____%	CLOSING BALANCE
Jan. 4	$ 0.00	....	....	$ 10.00	$ 10.00		
7		....	....	20.00	30.00		
9		....	$ 10.00	....	20.00		
Statement			10.00	30.00		$____	$____
Jan. 10	$____	....	....	....			
12		....	....	$ 80.00	$		
Feb. 1		....	....	40.00	$		
3		$ 20.00	....	....	$		
9		....	$ 30.00	....	$		
Statement		20.00	30.00	120.00		$____	$____
Feb. 10	$____	....	....	....			
12		$ 60.00	....	....	$		
14		....	....	$ 40.00	$		
16		....	$ 40.00	....	$		
Mar. 2		20.00	....	....	$		
9		....	....	50.00	$		
Statement		80.00	40.00	90.00		$____	$____
Mar. 10	$____	....	....	....			
14		$ 10.00	....	....	$		
18		....	....	$ 10.00	$		
Statement		10.00		10.00		$____	$____
Apr. 10	$____	....	....	....			
14		$ 10.00	....	....	$		
18		....	....	$ 10.00	$		
Statement		10.00		10.00		$____	$____
May 10	$____	....	....	....			
14		$ 10.00	....	....	$		
18		....	....	$ 10.00	$		
Statement		10.00		10.00		$____	$____
June 10	$____	$ 60.00+					$ 0.00
TOTAL		$190.00 + S.C.	$ 80.00	$270.00			

Creditor____________________

Address____________________

____

Type of business____________________

Charges figured by____________________

Information obtained by____________________

Date____________________

Revolving Credit Systems

SERVICE CHARGES are customarily advertised at 1½ percent of the unpaid balance. There are many variations, however. Six basic systems are described to assist in identifying the system in use. *Check one:*

_____(1) Service charge is based on the final unpaid balance of the previous month. The closing balance for this month is the unpaid balance plus the service charge and becomes the opening balance of the current month.

_____(2) Service charge is based on this month's opening balance and is added to the current month's statement.

_____(3) Same as (2) but no charges if opening balance is paid in full by __10 days, __15 days, __20 days, __29 days from billing date.

_____(4) Same as (3) but no charge if both payments *and returns* exceed the opening balance and credited before __10 days, __15 days, __20 days, __29 days from billing date.

_____(5) Service charge is based on this month's opening balance reduced by whatever payments are made during the month.

_____(6) Same as (5) with the value of returned purchases considered.

_____(7) Other system. Explain: ________________

NOTE: All except (1) base the service charge on the month's opening balance. In addition, all except (1) and (2) credit payments and/or returns made during the month as though they had been received as of the first of the month.

- Identify the system also by circling the balance used in figuring the service charges on the "revolving credit sequence" work problem.
- If charges other than 1½ percent monthly are made, please show on the work problem and explain ____

Monthly Payments

MONTHLY PAYMENTS may be either *fixed* in amount despite the reduction in the unpaid balances, or they may be flexible with the amount dependent on the size of the outstanding unpaid balance.

- Are payments fixed? Yes___ No___. If yes, what determines the amount of payment or length of time in which payments are to be made? ______________________________________
- Are payments flexible? Yes___ No___. If yes, what is the approximate relationship between payments and the unpaid balance? Usually a chart is supplied which shows the size of payment in relation to the current balance. Is the payment:

_____ 5% (1/20) of the current unpaid balance?
_____10% (1/10) of the current unpaid balance?
_____20% (1/5) of the current unpaid balance?
_____ Other?

Minimum Balance

A MINIMUM balance is often required either to initiate an account or to maintain one.

- Is there a minimum amount of credit the customer must use before revolving account privileges are extended? Yes___ No___
  If yes, what is the minimum? $__________
- Is there a minimum dollar balance that must be maintained? That is, if the balance gets down to a minimum, must it be paid in full? Yes___ No___. What is the amount? $__________

No-Charge Period— "The Free Ride"

PURCHASES made during the current billing period usually can be charged at no additional expense. This is the traditional 30-day charge with payment due before the 10th or 15th of the next month. Some consumers have abused this privilege and allowed their accounts to become delinquent, often without payment to the store for the extended credit. Many stores have met this situation by placing their customers "automatically" on a credit plan involving a service charge monthly on the unpaid balance.

How many days beyond the end-of-the-month billing date will credit be extended (or non-payment officially tolerated) before a service charge will be imposed? *Circle one:*

10 days	15 days	month
2 months	3 months	other_____

Credit Life or A & H Insurance

IS THE REVOLVING credit unpaid balance insured so that in the event of death, disability, accident or ill health, or other contingency, the balance will be paid up? Yes___ No___

If yes,

(1) Which of these risks are insured? ________________________________

(2) How is the premium figured and what is the rate? ________________________________

Equivalent Annual Percentage Rate

ALTHOUGH the rate is quoted on a monthly basis, it could be quoted as an annual rate. Translation of rates is common. For example, a car traveling at one mile a minute is going 60 miles per hour; a 6% home loan with monthly payments costs ½% per month; or a 4% savings account compounded quarterly pays 1% a quarter. What, in your opinion, is the equivalent annual rate of the monthly rate of _____% used by the creditor? _____%

CONTRACT CREDIT

How to figure true annual percentage rates without getting bogged down in difficult formulas is one of the problems of consumer credit. Most major items are financed by using contract credit. Some creditors, typically in home financing, start with the annual rate and use tables to figure what the monthly payments will be to repay the credit extended. Most others give the repayment terms but not the annual rate. For example, assume you are to buy a $3400 car and are allowed $1400 trade-in on your present car, the remainder to be paid in 36 monthly payments of $63.90. What is the annual percentage rate?

Since the AHEA Workshop, the consumer interest committee of the Kansas State Home Economics Association has published a simplified calculator for use by educators and consumers. Called the Consumer Credit Calculator, the new guide is prepared in a double-fold notebook size. The Calculator has the Department of Defense Rate Table on one side. On the other side are explanations and forms for figuring annual percentage rates and for applying the table to irregular installment payment contracts.

Copies of the Consumer Credit Calculator are available from the Consumer Interest Committee, Kansas Home Economics Association, c/o Department of Family Economics, Justin Hall, Kansas State University, Manhattan, Kansas 66502. Single copies are 15 cents each and in quantity 10 cents each.

ACTIVITIES AND QUESTIONS

The following activities and questions for review were suggested by the planning committee to help Workshop participants "tune in" on consumer credit practices in their states. These questions can be good "thought leaders" for follow-up workshops and for classroom teaching situations.

- Talk to a banker, a consumer finance company manager, and a credit manager of a retail store. Ask them who regulates their credit activities. What are the regulations? What annual interest rate do they charge? What extra charges, such as insurance premiums, investigation, or service charges, must a debtor pay? What happens if payments are not made on schedule?
- Ask the consumer finance company, the banker, and credit union manager who meets the credit needs of the people they cannot serve. To whom do they refer people for credit counseling?
- What is the federally proposed Truth in Lending bill? Some states have passed Truth in Lending laws. Has your state legislature considered Truth in Lending legislation? What are the important provisions of the proposed legislation? What action has been taken?
- Garnishment or wage assignment is the withholding of wages for the payment of debts. What are the laws of your state regarding garnishment? Can an employee be discharged if his wages are garnisheed? What percentage or dollar limitation of wages is exempt from garnishment? How many wage assignments can be executed concurrently? An attorney or court clerk can answer these questions for you.
- The maximum interest rate that may be charged without being declared usurious is established by states. What is the usury rate in your state? At this rate the credit needs of most consumers could not be met; consequently, special legislation has been enacted in most states to allow certain types of creditors to charge at higher rates. What classes or types of creditors in your state can legally charge more than the usury rate? What do you think would be a realistic usury rate?
- The privilege of bankruptcy is provided by the Federal Bankruptcy Act. If possible, visit or call your Federal Court and find out the provisions for declaring straight bankruptcy or for using the Wage Earner Plan. What is the cost to the debtor? Is the Wage Earner Plan widely used in your state?
- "Debt pooling" is a service some debtors become involved with, particularly if they have used credit excessively. Debt pooling is also referred to as "debt adjustors," "debt brokers," "debt consolidators," or "pro raters." Is debt pooling possible in your state? How does it operate?
- A few states provide for the canceling of contracts made away from a place of business, such as credit sales made by door-to-door salesmen. Has your state passed or proposed "Buyer's Right to Cancel" legislation, referred to as the cooling-off period? If so, what are the provisions of the law?
- Take note of the credit advertising you see on television, hear on radio, read in the newspaper. Is it misleading? Does it give all the needed facts?

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DEPARTMENT OF DEFENSE TABLE FOR COMPUTING APPROXIMATE ANNUAL PERCENTAGE RATE FOR LEVEL MONTHLY PAYMENT PLANS

EXAMPLE: Finance charge = $38
Total amount to be financed = $250
Number of monthly payments = 24

SOLUTION:

Step 1—Divide the finance charge by the total amount to be financed and multiply by $100. This gives the finance charge per $100 of amount to be financed. That is, $38 + $250 × $100 = $15.20.

Alternate method: Find the number of $100 units in the amount to be financed by setting the decimal two places to the left (2.50 units). Then, $38 ÷ 2.50 = $15.20.

Step 2—Follow down the left-hand column of the table to the line for 24 months. Follow across this line until you find the two numbers between which the finance charge of $15.20 falls. In this example $15.20 falls between $14.66 and $15.80. Reading up between the two columns of figures, you will see that the annual percentage rate is 14%.

Number of level monthly payments	Approximate annual rate																																																
		5%		5½%		6%		6½%		7%		7½%		8%		9%		10%		11%		12%		13%		14%		15%		16%		18%		20%		22%		24%		26%		28%		30%		33%		36%	
	(Finance charge per $100 of balance to be financed)																																																
1	$0.40		$0.44		$0.48		$0.52		$0.56		$0.60		$0.65		$0.71		$0.79		$0.88		$0.96		$1.04		$1.12		$1.21		$1.29		$1.42		$1.58		$1.75		$1.92		$2.08		$2.25		$2.42		$2.62		$2.88		$3.12
2	.59		.66		.72		.78		.84		.91		.97		1.06		1.19		1.31		1.44		1.57		1.69		1.82		1.94		2.13		2.38		2.63		2.88		3.14		3.39		3.64		3.95		4.33		4.71
3	.79		.88		.96		1.04		1.13		1.21		1.29		1.42		1.59		1.76		1.92		2.09		2.26		2.43		2.59		2.85		3.18		3.52		3.86		4.20		4.53		4.87		5.30		5.80		6.31
4	.99		1.10		1.20		1.31		1.41		1.51		1.62		1.78		1.99		2.20		2.41		2.62		2.83		3.04		3.25		3.57		3.99		4.41		4.84		5.26		5.69		6.11		6.65		7.29		7.93
5	1.19		1.32		1.44		1.57		1.69		1.82		1.95		2.13		2.39		2.64		2.89		3.15		3.40		3.65		3.91		4.29		4.80		5.31		5.82		6.34		6.85		7.37		8.01		8.79		9.57
6	1.39		1.54		1.68		1.83		1.98		2.13		2.27		2.49		2.79		3.08		3.38		3.68		3.97		4.27		4.57		5.02		5.61		6.21		6.81		7.42		8.02		8.63		9.39		10.30		11.22
7	1.59		1.76		1.93		2.09		2.26		2.43		2.60		2.85		3.19		3.53		3.87		4.21		4.55		4.89		5.23		5.75		6.43		7.12		7.81		8.51		9.20		9.90		10.77		11.83		12.88
8	1.79		1.98		2.17		2.36		2.55		2.74		2.93		3.21		3.60		3.98		4.36		4.74		5.13		5.51		5.90		6.48		7.26		8.03		8.82		9.60		10.39		11.18		12.17		13.36		14.57
9	1.99		2.20		2.41		2.62		2.83		3.05		3.26		3.57		4.00		4.43		4.85		5.28		5.71		6.14		6.57		7.22		8.08		8.95		9.83		10.70		11.58		12.47		13.58		14.92		16.27
10	2.19		2.42		2.65		2.89		3.12		3.35		3.59		3.94		4.41		4.88		5.35		5.82		6.29		6.77		7.24		7.96		8.91		9.88		10.84		11.81		12.79		13.77		15.00		16.48		17.98
11	2.39		2.64		2.90		3.15		3.41		3.66		3.92		4.30		4.81		5.33		5.84		6.36		6.88		7.40		7.92		8.70		9.75		10.80		11.86		12.93		14.00		15.08		16.43		18.06		19.71
12	2.59		2.87		3.14		3.42		3.69		3.97		4.25		4.66		5.22		5.78		6.34		6.90		7.46		8.03		8.59		9.45		10.59		11.74		12.89		14.05		15.22		16.40		17.87		19.66		21.46
13	2.79		3.09		3.39		3.68		3.98		4.28		4.58		5.03		5.63		6.23		6.84		7.44		8.05		8.66		9.27		10.20		11.43		12.67		13.93		15.18		16.45		17.72		19.33		21.26		23.22
14	2.99		3.31		3.63		3.95		4.27		4.59		4.91		5.39		6.04		6.69		7.34		7.99		8.64		9.30		9.96		10.95		12.28		13.62		14.97		16.32		17.69		19.06		20.79		22.88		25.00
15	3.20		3.54		3.88		4.22		4.56		4.90		5.24		5.76		6.45		7.14		7.84		8.53		9.23		9.94		10.64		11.71		13.13		14.57		16.01		17.47		18.93		20.41		22.27		24.52		26.79
16	3.40		3.76		4.12		4.48		4.85		5.21		5.58		6.13		6.86		7.60		8.34		9.08		9.83		10.58		11.33		12.46		13.99		15.52		17.06		18.62		20.19		21.76		23.75		26.16		28.60
17	3.60		3.98		4.37		4.75		5.14		5.52		5.91		6.49		7.27		8.06		8.84		9.63		10.43		11.22		12.02		13.23		14.85		16.48		18.12		19.78		21.45		23.13		25.25		27.82		30.42
18	3.80		4.21		4.61		5.02		5.43		5.84		6.25		6.86		7.69		8.52		9.35		10.19		11.03		11.87		12.72		13.99		15.71		17.44		19.19		20.95		22.72		24.51		26.76		29.50		32.26
19	4.01		4.43		4.86		5.29		5.72		6.15		6.58		7.23		8.10		8.98		9.86		10.74		11.63		12.52		13.41		14.76		16.58		18.41		20.26		22.12		24.00		25.89		28.28		31.18		34.12
20	4.21		4.66		5.11		5.56		6.01		6.46		6.92		7.60		8.52		9.44		10.37		11.30		12.23		13.17		14.11		15.54		17.45		19.38		21.33		23.30		25.28		27.29		29.81		32.88		35.99
21	4.41		4.88		5.35		5.83		6.30		6.78		7.26		7.97		8.94		9.90		10.88		11.85		12.84		13.82		14.82		16.31		18.33		20.36		22.41		24.49		26.58		28.69		31.36		34.60		37.88
22	4.62		5.11		5.60		6.10		6.60		7.09		7.59		8.35		9.36		10.37		11.39		12.41		13.44		14.48		15.52		17.09		19.21		21.34		23.50		25.68		27.88		30.10		32.91		36.32		39.78
23	4.82		5.33		5.85		6.37		6.89		7.41		7.93		8.72		9.77		10.84		11.90		12.97		14.05		15.14		16.23		17.88		20.09		22.33		24.60		26.88		29.19		31.53		34.48		38.06		41.70
24	5.02		5.56		6.10		6.64		7.18		7.73		8.27		9.09		10.19		11.30		12.42		13.54		14.66		15.80		16.94		18.66		20.98		23.33		25.70		28.09		30.51		32.96		36.05		39.81		43.63
25	5.23		5.79		6.35		6.91		7.48		8.04		8.61		9.47		10.62		11.77		12.93		14.10		15.28		16.46		17.65		19.45		21.87		24.32		26.80		29.31		31.84		34.40		37.64		41.58		45.58
26	5.43		6.01		6.60		7.18		7.77		8.36		8.95		9.84		11.04		12.24		13.45		14.67		15.89		17.13		18.37		20.24		22.77		25.33		27.91		30.53		33.18		35.85		39.23		43.36		47.54
27	5.64		6.24		6.85		7.46		8.07		8.68		9.29		10.22		11.46		12.71		13.97		15.24		16.51		17.80		19.09		21.04		23.67		26.34		29.03		31.76		34.52		37.31		40.84		45.15		49.52
28	5.84		6.47		7.10		7.73		8.36		9.00		9.64		10.60		11.89		13.18		14.49		15.81		17.13		18.47		19.81		21.84		24.58		27.35		30.15		33.00		35.87		38.78		42.46		46.95		51.51
29	6.05		6.70		7.35		8.00		8.66		9.32		9.98		10.97		12.31		13.66		15.01		16.38		17.75		19.14		20.53		22.64		25.49		28.37		31.28		34.24		37.23		40.26		44.09		48.77		53.52
30	6.25		6.92		7.60		8.28		8.96		9.64		10.32		11.35		12.74		14.13		15.54		16.95		18.38		19.81		21.26		23.45		26.40		29.39		32.42		35.49		38.60		41.75		45.73		50.60		55.54
31	6.46		7.15		7.85		8.55		9.25		9.96		10.67		11.73		13.17		14.61		16.06		17.53		19.00		20.49		21.99		24.26		27.32		30.42		33.56		36.75		39.97		43.24		47.38		52.44		57.58
32	6.66		7.38		8.10		8.82		9.55		10.28		11.01		12.11		13.59		15.09		16.59		18.11		19.63		21.17		22.72		25.07		28.24		31.45		34.71		38.01		41.36		44.75		49.05		54.29		59.63
33	6.87		7.61		8.35		9.10		9.85		10.60		11.36		12.49		14.02		15.57		17.12		18.69		20.26		21.85		23.46		25.88		29.16		32.49		35.86		39.28		42.75		46.26		50.72		56.16		61.70
34	7.08		7.84		8.61		9.37		10.15		10.92		11.70		12.88		14.45		16.05		17.65		19.27		20.90		22.54		24.19		26.70		30.09		33.53		37.02		40.56		44.15		47.79		52.40		58.04		63.78
35	7.28		8.07		8.86		9.65		10.45		11.25		12.05		13.26		14.89		16.53		18.18		19.85		21.53		23.23		24.94		27.52		31.02		34.58		38.18		41.84		45.56		49.32		54.09		59.93		65.87
36	7.49		8.30		9.11		9.93		10.75		11.57		12.40		13.64		15.32		17.01		18.71		20.43		22.17		23.92		25.68		28.35		31.96		35.63		39.35		43.14		46.97		50.86		55.80		61.83		67.98
37	7.70		8.53		9.37		10.20		11.05		11.89		12.74		14.03		15.75		17.49		19.25		21.02		22.81		24.61		26.42		29.18		32.90		36.69		40.53		44.43		48.39		52.41		57.51		63.75		70.11
38	7.91		8.76		9.62		10.48		11.35		12.22		13.09		14.41		16.19		17.98		19.78		21.61		23.45		25.30		27.17		30.01		33.85		37.75		41.71		45.74		49.82		53.97		59.24		65.68		72.25
39	8.11		8.99		9.87		10.76		11.65		12.54		13.44		14.80		16.62		18.46		20.32		22.20		24.09		26.00		27.92		30.85		34.80		38.82		42.90		47.05		51.26		55.54		60.97		67.62		74.40
40	8.32		9.22		10.13		11.04		11.95		12.87		13.79		15.19		17.06		18.95		20.86		22.79		24.73		26.70		28.68		31.68		35.75		39.89		44.09		48.37		52.71		57.12		62.72		69.57		76.56
41	8.53		9.45		10.38		11.32		12.25		13.20		14.14		15.57		17.50		19.44		21.40		23.38		25.38		27.40		29.44		32.52		36.71		40.96		45.29		49.69		54.16		58.70		64.47		71.53		78.74
42	8.74		9.69		10.64		11.60		12.56		13.52		14.50		15.96		17.94		19.93		21.94		23.98		26.03		28.10		30.19		33.37		37.67		42.05		46.50		51.03		55.63		60.30		66.24		73.51		80.94
43	8.95		9.92		10.89		11.87		12.86		13.85		14.85		16.35		18.38		20.42		22.49		24.57		26.68		28.81		30.96		34.22		38.63		43.13		47.71		52.36		57.09		61.90		68.01		75.50		83.14
44	9.16		10.15		11.15		12.15		13.16		14.18		15.20		16.74		18.82		20.91		23.03		25.17		27.33		29.52		31.72		35.07		39.60		44.22		48.93		53.71		58.57		63.51		69.80		77.50		85.36
45	9.37		10.38		11.41		12.44		13.47		14.51		15.55		17.13		19.26		21.41		23.58		25.77		27.99		30.23		32.49		35.92		40.58		45.32		50.15		55.06		60.06		65.13		71.60		79.51		87.60
46	9.58		10.62		11.66		12.72		13.77		14.84		15.91		17.53		19.70		21.90		24.13		26.37		28.65		30.94		33.26		36.78		41.55		46.42		51.38		56.42		61.55		66.76		73.40		81.53		89.85
47	9.79		10.85		11.92		13.00		14.08		15.17		16.26		17.92		20.15		22.40		24.68		26.98		29.31		31.66		34.03		37.64		42.54		47.53		52.61		57.78		63.05		68.40		75.22		83.57		92.11
48	10.00		11.09		12.18		13.28		14.39		15.50		16.62		18.31		20.59		22.90		25.23		27.58		29.97		32.37		34.81		38.50		43.52		48.64		53.85		59.15		64.56		70.05		77.04		85.61		94.38
49	10.21		11.32		12.44		13.56		14.69		15.83		16.98		18.71		21.04		23.39		25.78		28.19		30.63		33.09		35.59		39.37		44.51		49.75		55.09		60.53		66.07		71.70		78.88		87.67		96.67
50	10.42		11.55		12.70		13.84		15.00		16.16		17.33		19.10		21.48		23.89		26.33		28.80		31.29		33.82		36.37		40.24		45.50		50.87		56.34		61.92		67.59		73.37		80.72		89.74		98.96
51	10.63		11.79		12.95		14.13		15.31		16.50		17.69		19.50		21.93		24.40		26.89		29.41		31.96		34.54		37.15		41.11		46.50		51.99		57.60		63.31		69.12		75.04		82.58		91.82		101.28
52	10.84		12.02		13.21		14.41		15.62		16.83		18.05		19.89		22.38		24.90		27.45		30.02		32.63		35.27		37.94		41.99		47.50		53.12		58.86		64.70		70.66		76.72		84.44		93.91		103.60
53	11.05		12.26		13.47		14.69		15.92		17.16		18.41		20.29		22.83		25.40		28.00		30.64		33.30		36.00		38.72		42.87		48.50		54.26		60.12		66.11		72.20		78.41		86.31		96.01		105.94
54	11.26		12.49		13.73		14.98		16.23		17.50		18.77		20.69		23.28		25.91		28.56		31.25		33.98		36.73		39.52		43.75		49.51		55.39		61.40		67.52		73.75		80.10		88.19		98.13		108.29
55	11.48		12.73		13.99		15.26		16.54		17.83		19.13		21.09		23.73		26.41		29.13		31.87		34.65		37.46		40.31		44.64		50.52		56.54		62.67		68.93		75.31		81.81		90.09		100.25		110.65
56	11.69		12.97		14.25		15.55		16.85		18.17		19.49		21.49		24.19		26.92		29.69		32.49		35.33		38.20		41.11		45.53		51.54		57.68		63.96		70.36		76.88		83.52		91.99		102.38		113.02
57	11.90		13.20		14.52		15.84		17.17		18.50		19.85		21.89		24.64		27.43		30.25		33.11		36.01		38.94		41.91		46.42		52.56		58.84		65.25		71.78		78.45		85.24		93.90		104.53		115.41
58	12.11		13.44		14.78		16.12		17.48		18.84		20.21		22.29		25.10		27.94		30.82		33.74		36.69		39.68		42.71		47.32		53.58		59.99		66.54		73.22		80.03		86.97		95.82		106.68		117.81
59	12.33		13.68		15.04		16.41		17.79		19.18		20.58		22.70		25.55		28.45		31.39		34.36		37.[illegible]		40.42		43.51		48.21		54.61		61.15		67.84		74.66		81.62		88.71		97.75		108.85		120.22
60	12.54		13.92		15.30		16.70		18.10		19.52		20.94		23.10		26.01		28.96		31.96		34.99		38.06		41.17		44.32		49.12		55.64		62.32		69.14		76.11		83.21		90.45		99.68		111.03		122.64

SOURCE: U.S. Department of Defense

The values in this table have been computed by the actuarial or annuity method which conforms to the United States Rule.

APPLICABILITY OF DoD TABLE TO IRREGULAR INSTALLMENT PAYMENT CONTRACTS ILLUSTRATING USE OF FORM I

Use this form in connection with Department of Defense Rate Table for level payment contracts that are irregular only because of deferment or of odd final payment that is not more than twice as great as a regular payment.

TYPE A—*ODD FINAL PAYMENT, NO DEFERMENT:* A TV purchased for $395 plus finance charge of $39.50 . . . to be financed by 17 payments of $24 each plus final payment of $26.50.

TYPE B—*EQUAL PAYMENTS PLUS DEFERMENT:* Personal loan arranged for $200. Finance charge is $16 . . . to be 12 equal payments of $18 each. First payment due in 3 months, 24 days.

TYPE C—*ODD FINAL PAYMENT PLUS DEFERMENT:* $195.50 appliance financed with 10 payments of $20 each and final payment of $7.80. Finance charge is $12.30. First payment is due in 21 days.

TYPE D—*SINGLE PAYMENT:* The purchase of $250 of merchandise is to be financed by a single payment of $257.50 in 3 months, 21 days.

PROBLEMS RESTATED	IRREGULAR TYPES			
	A	B	C	D
Amount to be financed	$395.00	$200.00	$195.50	$250.00
Finance charge	$39.50	$16.00	$12.30	$7.50
No. of contract payments	18	12	11	1
Regular payments	$24.00	$18.00	$20.00	$257.50
Final payment, if odd	$26.50	—	$7.80	—
First payment due in	1 mo	3 mo 24 da	21 da	3 mo 21 da

FORM I

Step 1				
• Move decimal 2 places to the left in amount to be financed to find $100 units	3.95	2.00	1.96	2.50
• Divide into finance charge to obtain FC/$100	$10.00	$8.00	$6.28	$3.00
Step 2				
• Number of contract payments	18	12	11	1
• Adjustment for deferred first payment:				
• Double the time by which first payment exceeds a full payment period	....	4 mo 48 da	−18 da	4 mo 42 da
• Round to nearest number of periods and add	....	+6	−1	+5
• To obtain adjusted number of payments	....	18	10	6
Step 3				
• Read down left column of DoD Table to number of payments	18	18	10	6
• Read across to locate FC/$100	$10.00	$8.00	$6.28	$3.00
• Read up to find rate	12%	10%	13½%	10%

SOURCE: Family Economics Department, Kansas State University, 1967.

APPLICABILITY OF THE DoD TABLE TO IRREGULAR INSTALLMENT PAYMENT CONTRACTS ILLUSTRATING USE OF FORM II

All irregular cases not covered by Form I are covered by Form II which permits breaking complicated contracts into manageable components. It covers: (1) Skipped payments with even payments, odd payments, or odd final payments. (2) Balloon payment. (3) A composite of single payments. (4) Additional purchases. Each case must be treated individually.

The case of "skipped payments with odd final payment" has been selected to show how a problem is broken into sub-schedules each consisting of a deferred series of regular payments.

Suppose a salesman knows he will be receiving delayed bonuses from previous sales. On December 1, 1967, he purchases a $346.00 Christmas holiday tour arranging these payments to match his anticipated bonuses:

Sub-schedule:

#1—3 payments of $20 each, beginning at 1 month, 5 days (Jan. 6, 1968)

#2—8 payments of $20 each, beginning at 7 months, 5 days (July 6, 1968)

#3—7 payments of $20 each, beginning at 18 months, 5 days (June 6, 1969)

#4—1 payment of $30 due at 25 months, 5 days (Jan. 6, 1970)

Total payments $390—Finance Charge $44.00

FORM II

Step 1 — Find FC/$100 using instructions on DoD Table. ($44.00 ÷ 3.46 units = $12.72)

Step 2 — Find the number of payment equivalents:

Instructions	Sub-Schedule #1	Sub-Schedule #2	Sub-Schedule #3	Sub-Schedule #4	
(a) Time first payment exceeds one full period	+5 da	6 mo +5 da	17 mo +5 da	24 mo +5 da	
(b) Double time difference and round to nearest month	0	+12	+34	+48	
(c) Number of payments	3	8	7	1	
(d) Adjusted number of payments (b + c)	3	20	41	49	
(e) Amount of each payment	$ 20	$ 20	$ 20	$ 30	
(f) Total amount actual payments (c × e)	$ 60 +	$ 160 +	$ 140 +	$ 30 =	$ 390
(g) Total of adj. pmts. (d) weighted by total actual pmts. (f), (d × f)	$180 +	$3200 +	$5740 +	$1470 =	$10,590

Number of payment equivalents is the number of times total actual payments are in the weighted total; obtained by dividing (f) into (g): $10,590 ÷ $390 = 27.2 = 27

Step 3 — Read down left column of DoD Table to 27, number of payments.

Read across to find FC/$100. *$12.72*

Read up to find the rate. *11%*

SOURCE: Family Economics Department, Kansas State University, 1967.

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